84-7095

United States Court of Appeals

FOR THE SECOND CIRCUIT

UNITED STATES COURT OF APPEALS
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SECOND CIRCUIT

UNIVERSAL CITY STUDIOS, INC.,

Plaintiff-Appellant,

—against—

NINTENDO CO. LTD., NINTENDO OF AMERICA, INC.,

Defendants-Appellees.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

BRIEF FOR PLAINTIFF-APPELLANT

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ON APPEAL FROM THE UNITED STATES DISTRICT COURT
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BRIEF FOR PLAINTIFF-APPELLANT

This appeal by plaintiff Universal City Studios, Inc. ("Universal") follows a summary judgment by the court below (Sweet, D.J.) dismissing Lanham Act, common law unfair competition and statutory dilution claims against the Japanese manufacturer (Nintendo Co. Ltd.) and United States importer (Nintendo of America, Inc.) of the video arcade game Donkey Kong.[1]

Universal brought the action in June 1982 charging both defendants with trademark infringement and misappropriation of Universal's trademark in the name and gorilla character

1 Both defendants are referred to herein as "Nintendo." The importing company is a wholly-owned subsidiary of the Japanese parent. (A263-64. All references to the Joint Appendix are designated "A ____"; exhibits are designated by number, *e.g.*, X-1, and are also described in the Joint Appendix.)

KING KONG, popularized through two major "King Kong" motion pictures produced under the auspices of RKO General, Inc. ("RKO"), Universal's predecessor in interest. Proceeding on the belief that Universal's claims could be treated solely as matters of law, the district court granted Nintendo's omnibus motion for summary judgment in an Opinion and Order of December 22, 1983. (A160.) A Judgment and Rule 54(b) Determination followed shortly thereafter (A197) and from that Judgment Universal filed this appeal. (A199.)

ISSUES PRESENTED FOR REVIEW

1. Whether the court below erred in holding that:

   (a) as a matter of law Universal does not hold a trademark in KING KONG because a decree by a federal district court in California transferring from the prior user to Universal's assignor all trademark rights in the name and gorilla character KING KONG, including the right to exploit commercially the name and gorilla symbol in selling merchandise and services, was an invalid assignment in gross, and even though Universal has used KING KONG as a trademark in connection with the sale of commercial products for the last three years;

   (b) no reasonable person could find that the name KING KONG or a gorilla denoted as KING KONG has secondary meaning signifying a single source of origin; and

   (c) no reasonable person could find that prospective buyers of an arcade game called Donkey Kong are not likely to believe that it originated with or was sponsored by those responsible for the "King Kong" motion pictures or their successors.

2. Whether the court below erred in granting summary judgment for defendants on Universal's claims under N.Y. Gen. Bus. Law § 368-d (McKinney 1983), where factual issues

were presented as to the strength of Universal's mark, the probability of blurring and the good faith of Nintendo in adopting its Donkey Kong mark.

3. Whether the court below erred in dismissing Universal's common law claims of unfair competition without addressing them, after it granted summary judgment on Universal's claims under section 43(a) of the Lanham Act and N.Y. Gen. Bus. Law § 368-d (McKinney 1983).

STATEMENT OF THE CASE

The Proceedings Below

Universal filed its complaint against Nintendo on June 29, 1982. In the year following service of the complaint both sides took and completed extensive discovery. Thus, when defendants filed their motion for summary judgment in June 1983, the case was ready for trial. The district court was aware that the case could be tried, but at Nintendo's urging it agreed to take the case on the record as presented, consisting of affidavits, deposition testimony and documents, even if doing so meant (as it acknowledged in its Opinion) resolving fact issues in violation of the rules controlling summary judgment.

The Decision Below

A. The Summary Judgment Rule

In granting Nintendo's motion, the district court misapplied the substantive law applicable to many of the issues. But worse, it entirely ignored the fundamental rule by which it was bound on the motion: that the record be viewed in the light most favorable to Universal. *United States* v. *Diebold, Inc.*, 369 U.S. 654, 655 (1962). Material fact issues were resolved against Universal, and this was inconsistent with this Court's holding in *Schering Corp.* v. *Home Insurance Co.*, 712 F.2d 4, 7 (2d Cir. 1983), that "ambiguities must be resolved and reasonable inferences drawn in favor of the party against whom summary judgment is sought."

B. How The Case Below Was Treated

Nintendo offered multiple legal theories why its Donkey Kong did not infringe KING KONG and the district court took them in the order presented, turning first to a collateral estoppel defense, next to an attack on KING KONG as a trademark and finally to the core issue: whether on the facts of the case buyers of the Donkey Kong arcade game were likely to be confused as to its source of origin.

Nintendo first contended that Universal was collaterally estopped from even bringing the suit because Universal had successfully defended a trademark dilution claim on KING KONG made by RKO eight years ago in California federal court. Judge Sweet correctly rejected Nintendo's collateral estoppel argument and no cross-appeal has been taken from that ruling.

Next, the court addressed Nintendo's argument that Universal should be precluded from claiming a trademark in KING KONG because of alleged deficiencies in the manner in which Universal had acquired its rights. Universal cited two independent bases for asserting its rights to KING KONG as a trademark. The first was an assignment secured from Richard Cooper in December 1976 which granted Universal the right to merchandise the name and character KING KONG.[2] Cooper had earlier secured these merchandising rights from RKO pursuant to a court decree, and through the assignment simply conveyed them to Universal. The second basis for the claim was Universal's own continuous commercial use of KING KONG as a trademark through the present.

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2 Alexander Lindey, an authority on entertainment law, gives the following definition of merchandising in his treatise:

> Merchandising rights in intellectual property are the rights to use some popular element of a property—a comic-book character (Superman), a screen cartoon character (Mickey Mouse), a strip cartoon character (Peanuts), a television character (Miss Piggy)—to advertise and promote the sale of commercial products or services.

2 *Lindey on Entertainment, Publishing and the Arts*, § 13:A at 1719 (2d ed. 1981).

The court rejected Universal's first point and largely ignored the second. Universal could not assert trademark rights in KING KONG of any kind, said Judge Sweet, because the 1976 California court decree that transferred the rights from RKO to Cooper (Universal's assignor) was an invalid "assignment in gross," one that failed to transfer any "goodwill" from RKO's business. (A178-79.) There was a serious flaw in this analysis because to arrive at that conclusion the court had to disregard what the cases say "goodwill" means and ignore the evidence which showed a transfer of RKO's KING KONG merchandising business contemporaneous with a continuing effort by Universal to use the mark for products similar to the ones RKO licensed. Universal's evidence did satisfy the legal test for the transfer of goodwill.

The next argument which Nintendo presented was Universal's alleged failure to demonstrate that KING KONG had "secondary meaning." In accepting Nintendo's argument, Judge Sweet stressed entirely the wrong symbol. He mischaracterized Universal's claims at the start of his Opinion by stating that the dispute was "over two gorillas" and then compounded his error by claiming that "exactly who KING KONG is, in the trademark sense, and what he looks like, is a key to this lawsuit." (A161.) Judge Sweet was wrong. Universal argued below that a large gorilla depicted on top of a building with a female captive *could* serve as a trade symbol, and that it certainly reinforced the likely confusion between Donkey Kong and KING KONG. But Universal also argued—and stressed—that the trademark was in the *name* KING KONG, making Donkey Kong an infringement of Universal's trademark in the *name* irrespective of what anyone's gorilla looked like. Judge Sweet completely ignored this critical basis of Universal's claim and the trademark analysis that followed was flawed accordingly.

Taking the trademark to mean the gorilla, the district court then held that "King Kong lacks secondary meaning as a matter of law . . . [b]ecause of the competing property interests in King Kong . . . ." (A179.) Where the court went

wrong in resolving the issue on a summary judgment motion was again in not heeding the record. The testimony and documents to which Judge Sweet referred in his "competing property interests" analysis showed that RKO and Dino De Laurentiis Corporation ("DDLC"), RKO's licensee, claimed a copyright in their respective "King Kong" films. What the court disregarded was the testimony both RKO and DDLC gave that neither had any merchandising rights in KING KONG at all and that Universal was the *only* party that could license or use the KING KONG name in every commercial field except book publishing. (A433, A437, A1660-61.)

The court also improperly resolved a fact issue with respect to Nintendo's evidence of KING KONG third-party usage. It accepted and cited as evidence that KING KONG was being used as a trademark by others, an exhibit prepared by Nintendo's outside consultant, even though the exhibit did not purport to make that claim and when it was plain that many of the KING KONG references in it were *not* trademark uses.

Finally, the court turned to the main issue of the lawsuit, whether buyers of Nintendo's Donkey Kong are likely to be confused about the source of origin of a game called Donkey Kong and featuring a large gorilla on top of a building. Judge Sweet acknowledged that confusion about source of origin was "primarily a question of fact." (A185.) He then considered this Court's decision in *Warner Bros. Inc.* v. *American Broadcasting Companies, Inc.*, 720 F.2d 231 (2d Cir. 1983), a case raising copyright and trademark claims, and construed a statement there on the authority of courts "to monitor the outer limits" of substantial similarity claims as an invitation to resolve the Donkey Kong confusion of origin issue on a summary judgment motion. In resolving this case on that basis the court below was doing considerably more than defining the outer limits of a trademark claim. Universal's evidence, if presented and accepted at trial, *would* have established a trademark infringement. Donkey Kong *is* a variation on the tradename KING KONG, Nintendo's witnesses acknowledged that the game derived from the KING KONG films, its president said

he thought KING KONG was confusingly similar as a name and there was evidence of confusion in a relevant market—18% of video arcade owners Universal questioned reported that they thought Donkey Kong was approved by the owners of KING KONG.

Judge Sweet was certainly free to make a visual inspection of Nintendo's game and subjectively evaluate the respects in which it differs from the classic motion picture depiction of the KING KONG gorilla. But it is not apparent how this exercise helps much when Universal's claim focused on the name Donkey Kong and the law requires only that Universal show that reasonable buyers of that game connect it with the *name* KING KONG and believe it originates with the "King Kong" motion pictures.

There are other problems with the district court's treatment of this case. Nintendo argued, for example, that Universal's out-of-court agreement with three Nintendo licensees permitting the continued sale of Donkey Kong products in exchange for royalties showed that Universal did not believe Donkey Kong would be confused with KING KONG. Universal answered the claim with deposition testimony by its chief executive pointing out that the agreements were nothing more than pragmatic settlements of claims in litigation. (A585-88.) But again the court below resolved the issue against Universal without hearing testimony from either side and without affording Universal the opportunity of cross-examining the licensee witnesses who gave the affidavits supporting Nintendo's position. This too was wrong on a summary judgment motion.

In a similar fashion, the district court made improper factual determinations in granting summary judgment on Universal's statutory dilution claims. Finally, the court inexplicably dismissed Universal's common law unfair competition claims without even addressing them—a clear error.

FACTS RELEVANT TO UNIVERSAL'S APPEAL

The KING KONG Name As A Trademark

The district court correctly referred to RKO's 1933 motion picture "King Kong" as an "American classic," one whose scenes are immediately "recognized by the American public" and require no further description. (A163.) The court might have added (but did not) that it was the popularity and resultant goodwill generated by the "King Kong" motion picture in the years following its release that enabled RKO to successfully develop and exploit the name KING KONG (by itself or in conjunction with the KING KONG gorilla) in a host of commercial markets ancillary to its film business. This was attested to by RKO's William Regan, who handled legal matters relating to RKO's "King Kong" motion picture. Regan explained at deposition how over the years RKO had licensed the KING KONG name as a trademark for a wide variety of merchandising items including toys, games and household articles and garments, wristwatches, school supplies and books. (A445-58, A475-77, A514-22).[3]

While the court below described the RKO KING KONG merchandising programs as "unsupervised and unchallenged" (A164), this plainly was mistaken. Regan's testimony at deposition was directly contrary. He explained how RKO policed its rights in KING KONG by writing "cease and desist" letters when it learned of efforts by unauthorized parties to use the KING KONG name in the sale of products and services (A514-15, A518-21, A525, A1362-98), and told of how lawsuits were filed. (A515-17.) Regan also recounted how an extensive merchandising program was undertaken by Paramount Pictures Corporation ("Paramount"), DDLC's licensee, in 1976 in conjunction with the release of the "King Kong" remake by DDLC. (A456-57, A535-37.) All of this was pursuant to

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3 Regan referred to RKO's trademark licensing program as the exploitation of "merchandising rights," meaning the "exploitation of a motion picture or the characters or any element of it by means other than the exhibition of it in theaters or on television or other . . . means of exhibition . . . ." (A427.)

contract with and under RKO's licensing supervision. (A456-57, A474.) The point was corroborated by Richard Zimbert, Senior Vice President of Paramount, who explained in an affidavit below how Paramount licensed over 30 different companies to manufacture all kinds of products for sale under the name KING KONG, again pursuant to agreement with RKO and DDLC that specifically provided for RKO's quality control and approval. (A1680-81.)[4]

The Origin And Development Of Universal's Trademark Rights In The Name KING KONG

In 1975 Universal and RKO became embroiled in a dispute over whether RKO had granted Universal the right to make a new "King Kong" motion picture. As part of their controversy, Universal filed an action against RKO in federal court in California seeking a judgment declaring that the "King Kong" story published by Merian Cooper in 1932 was in the public domain, not protected by copyright and freely available for Universal to use as the basis for a new "King Kong" motion picture. (A1049.) Universal succeeded on the claim at a four-day trial in September 1976 and while the case was pending on RKO's appeal to the Court of Appeals for the Ninth Circuit the parties settled. (A1260.) There was also a cross-claim in the case by Merian Cooper's son, Richard Cooper, against RKO. Cooper claimed that RKO had exceeded the one-picture license his father had granted RKO back in 1932 (to make the original "King Kong") and in effect had been wrongfully using the KING KONG name and KING KONG gorilla character as trademarks for four decades. (A1123.) Cooper's claim was also tried in September 1976 and the district court agreed with Cooper. (A1127.) This posed a problem: how to devise a legal remedy to redress the original wrong to Cooper (and his father) given the fact that RKO had an extensive KING KONG

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4 DDLC's Fredric Sidewater made the same point in his affidavit (A1659) explaining how DDLC had secured the right to use the KING KONG name and gorilla character as a trademark in the merchandising field in conjunction with its agreement with RKO authorizing the 1976 "King Kong" remake.

business in *esse* and outstanding merchandising licenses authorizing the manufacture and sale of goods under the KING KONG name. The court saw the solution as calling for (a) an outright grant to Cooper of all of RKO's present rights in the KING KONG name; (b) a constructive trust arrangement for all past rights, RKO being the trustee and Cooper the beneficiary; and (c) a conveyance of RKO's present KING KONG merchandising business to Cooper. The decree that put this into effect and which Universal cites as the origin and basis of its rights in KING KONG read (in pertinent part) as follows (A1293-96):

> 1. That as between RKO and Richard Cooper, all rights in and to the use of the name, character and story "King Kong", other than the right to produce the motion picture photoplay "King Kong" as published by RKO on February 24, 1933 and to copyright and renew the copyright in the said motion picture photoplay, and the right to produce the motion picture photoplay "Son of Kong" as published by RKO and to copyright and renew the copyright in the said motion picture photoplay, are exclusively vested in and solely owned by Richard Cooper.
>
> 2. That Defendant and Cross-Defendant RKO is a constructive trustee of all of the rights in and to the character, name, and story "King Kong" to the extent they have been exercised by it at any time prior to the date of this Final Judgment, and Richard Cooper is the sole beneficiary of said trust.
>
> * * *
>
> 6. That RKO execute assignments in favor of Richard Cooper, in the form approved by the Court, of each of the outstanding contracts by which RKO has or will obtain money as a result of the use of the name, character, and/or story "King Kong" in connection with sequels to (excluding "Son of Kong") or remakes of the RKO motion picture photoplay of "King Kong" and/or in connection with the use of the character, name, or story

> "King Kong" for the production, distribution, sale, or promotion of any toys, games, books, pictures, models, or any other form of merchandising.

The RKO-Cooper Judgment is important. It represented to Universal, with its varied film making and entertainment businesses, an opportunity to take over the production and licensing of new "King Kong" films and continue the KING KONG merchandising programs RKO had been successfully exploiting for several decades. The mechanics were simple. Universal immediately substituted itself for Cooper under the RKO-Cooper Judgment by signing an agreement with Cooper on December 15, 1976, days after the court's Judgment had transferred RKO's rights to Cooper. Cooper's assignment to Universal (A1251-59) states (in pertinent part) that Cooper conveyed:

> 2. (a) all of [his] right, title and interest (including without limitation, all rights of which [Cooper is] the legal, beneficial, or equitable owner) in . . . the name, the character and the title "King Kong", and
>
> (b) all of [his] right, title and interest in the Cooper Findings and Cooper Judgment, and
>
> (c) all of [his] rights which may flow from the Cooper Findings and Cooper Judgment and any other judgment which may hereafter be entered in [his] favor on the Cooper Cross-claim. Specifically, and without limitation, . . . [Cooper] hereby assign[s] transfer[s] and convey[s] to Universal all rights which [he has] or own[s] as the beneficiary of any constructive trust established in [his] favor and against RKO by the Cooper Findings, Cooper Judgment or any other judgment which may hereafter be entered in [his] favor on the Cooper Cross-Claim.

By the time Universal had secured its merchandising rights in KING KONG from Cooper, RKO had already licensed DDLC to produce its "King Kong" re-make. The RKO agreement with DDLC also licensed DDLC and Paramount to use the

KING KONG name and character to merchandise products tied in with the new film. When these arrangements between RKO, DDLC and Paramount expired in late 1979, Universal was in a position to begin making practical commercial use of the rights in the KING KONG name it had earlier obtained from Cooper. (A1400-02.)

Universal Is Today Commercially Exploiting The Goodwill Developed For The Name KING KONG By The "King Kong" Motion Pictures By Licensing And Using The KING KONG Name In The Sale Of Products And Services

There was no "lapse" or "break" in continuity between the efforts of the two companies (first RKO and then Universal) to license and sell products under the KING KONG name. In July 1980 Universal wrote RKO, Paramount and DDLC advising that it planned to begin its KING KONG merchandising efforts upon the expiration of Paramount's then outstanding RKO licensing agreement. (A1400-02.)[5] Universal did so in December 1980, continuing a Paramount license issued under RKO's auspices to Ben Cooper Inc. to sell KING KONG costumes. Later, Tiger Electronic Toys, Inc. ("Tiger"), a manufacturer of games, was licensed to develop and sell both a KING KONG table top video game and a hand-held game with similar characteristics. (A206-07, A215, A217-22.) This was, moreover, months before Universal learned of Donkey Kong's existence. (A1406.) In July 1983 Universal's merchandising affiliate, Merchandising Corporation of America, licensed National Electronics & Watch Co. Ltd. to use the name KING KONG in the promotion and sale of wrist game watches. The license runs through December 31, 1984. (A1412.)

Universal is actively developing its rights in the KING KONG name and gorilla character. A multi-million dollar

5 RKO, Paramount and DDLC accepted Universal's position. In the affidavits and deposition testimony submitted below, spokesmen for all three testified that Universal today is the *only* one having the right to exploit commercially the goodwill developed for the KING KONG name and gorilla character as a trademark for merchandise and services. (A437, A1660-62, A1681-82.)

KING KONG tourist attraction for the Universal City Studios Tour in Los Angeles, a project in the works for years, is now in production and will be followed by a similar KING KONG tour attraction at the company's Florida tour facility. (A553-54, A563-70.)[6]

Nintendo's Donkey Kong Game

It is not seriously subject to dispute that defendants' game was developed, produced and made in Japan with the KING KONG name and "King Kong" film in mind.[7] The testimony on point was given by Nintendo's Yokoi and Miyamoto, Donkey Kong's developer and designer respectively. It appears that Donkey Kong started out as a "Popeye" game, featuring Popeye, Olive Oyl and Bluto, but owing to technical problems Popeye was abandoned. Miyamoto (who testified he understood no English) said the idea of substituting a gorilla for the Bluto figure was his. (A409-13.) This was corroborated by contemporaneous documents prepared by Miyamoto which show that Miyamoto thought it important to design a game based on characters that people would recognize. (A644-46.)

One of the first written descriptions of what eventually became Donkey Kong is given in a document. (A669.) In the first paragraph Miyamoto explains the game as follows (emphasis added):

> with background music and/or screen, *King Kong* captures a girl and descends the ladder straight. Stops at predetermined position.

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6 The Universal City Studios Tour is the second largest "theme park" in the country, attracting approximately 3,000,000 people annually. (A564.)

7 Mr. Arakawa, President of Nintendo's United States subsidiary ("Nintendo USA"), describes the "theme" of Donkey Kong as follows:

> The audio-visual game of Donkey Kong has the theme of a fanciful gorilla image perched at the top of a building structure where a lady is held captive." (A1354.)

On the third page of the description, Miyamoto identifies the characters that will appear in the game, specifically referring to the gorilla as "King Kong," a "lady" and some barrels.

Miyamoto was candid: "It is true that I used the word King Kong in describing the gorilla," and went on to explain that he had seen parts of a "King Kong" motion picture on television and years ago the motion picture "King Kong vs. Godzilla." (A414.)[8]

The account Miyamoto gave of the relationship between the KING KONG he had seen in the motion pictures and his idea for a KING KONG gorilla in Donkey Kong was muddled owing to the problems of translation and Miyamoto's description of KING KONG as a "stuffed doll." (A415.) What Miyamoto apparently meant by the "stuffed doll" reference was that he knew that the gorilla he saw in the movies was not a "real" gorilla but only (he thought) a human being wearing a gorilla costume. (A425.) But it was his intention, as he explained, to "also make the gorilla in Donkey Kong as a 'stuffed doll.' " (A419.)

Gunpei Yokoi, who worked on the Donkey Kong project with Miyamoto, corroborated his testimony. He conceded that Miyamoto called the gorilla in Donkey Kong "Kong" or "King Kong," that early in the development of Donkey Kong it was his intention to use characters with which people were familiar (A644-45) and said "yes" he thought it was important that the name for the game be one that Americans and Japanese alike recognize. (A649.)[9]

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8 In addition to the 1933 and 1976 "King Kong" films, RKO had licensed the production of other "King Kong" movies. Universal owns the copyright in the film "King Kong vs. Godzilla." (A909.)

9 Nintendo Japan's Tokyo sales manager, Mr. Kawahara, gave Miyamoto a list of ideas for names for the new game while Miyamoto was on a business trip to Tokyo early in the development of the project and after Miyamoto had shown Kawahara a copy of his original game proposal. (A667.) This list included the name KING KONG at the top followed by Popeye, Comical Kong and some others.

There are other details to the account given by Nintendo's witnesses as to why the game came to be called Donkey Kong. Nintendo's export manager Todori, who put together a list of 20 proposed names for the game said, for example, that one consideration in naming the game was that people both in Japan and the United States would be able to understand the content of the game simply by hearing its name. (A622.) Todori added that he thought Donkey Kong expressed the contents of the game to both the Japanese and Americans. (A615-18, A624.)

The views of employees at Nintendo USA on the potential value of the right name in selling arcade games were similar. Don James, production manager of Nintendo USA, is quoted in an interview given for an article circulated via UPI in January 1983 as explaining how a name derived from a motion picture has value: "You take Tron. After the movie, they had a built-in commercial for that game . . . . [E]veryone knows Popeye. At least [a game with Popeye's name] gets people to look at it, maybe try it." (A1433.) The same point was made (in a different way) by Mr. Yamauchi, President of Nintendo Co. Ltd., who explained "machines won't sell if we give them Japanese names." (A630-31.)

Is Donkey Kong Confusingly Similar To KING KONG?

Putting Nintendo's motives for choosing the name aside, there are other facts relevant to—and supportive of—Universal's contention that buyers of Donkey Kong are apt to be confused about its origin or sponsorship. As a name, Donkey Kong *is* similar to KING KONG. The similarity in name is reinforced by the graphic depiction of Nintendo's gorilla standing on top of a building with a girl. (DX-1, Exh. 12.) What is more telling, if the issue had ever really been in doubt, is the statement of Mr. Arakawa given to the United States Patent and Trademark Office before Universal filed this suit (A297):[10]

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10 Arakawa gave this statement in an affidavit supporting Nintendo's request to expedite treatment of its trademark registration application

(footnote continued)

> [Nintendo] is aware of at least ten other specific reports of infringement of its audio-visual game sold under the trademark DONKEY KONG, which infringing games use either identical or confusingly similar names, including the above-mentioned CRAZY KONG, and such variations thereof as KING KONG and DONKEY KING.

There was also evidence that Donkey Kong has confused some of the people to whom defendants sold the game. A survey of video arcade owners and operators conducted by Opinion Research Corporation in March 1983 asked respondents (a) why they thought the game was called Donkey Kong and (b) whether they believed it was sold with the approval or under the authority of those who produced the "King Kong" movies. The result was that 18% of those surveyed believed that Donkey Kong had actually been sponsored or authorized by the "King Kong" motion picture makers. (A1643.)[11]

The reception that Donkey Kong received in the trade press was similar and showed that many who have written about Donkey Kong had no trouble making the connection with KING KONG. Thus, for example, an October 1982 issue of *Videogaming Illustrated* (written by Nintendo's expert in this case) points out: "inarguably, the most visible of Donkey Kong's predecessors is King Kong . . . ." (A1510.) Similarly, a publication called *Video Invaders* recites "whoever dreamt up Donkey Kong obviously had the 1933 version of 'King Kong' in mind . . . ." (A1523.)

Some of Nintendo's licensees also made the connection. Universal made its claim on Donkey Kong before filing the lawsuit, advising Nintendo in a mailgram sent days after it learned of the game that it regarded the name and the game's

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for Donkey Kong. Action on that application has been suspended pending the outcome of this lawsuit.

11 Typical comments from the survey respondents were: "Kong comes from King Kong"; "It is obviously a take-off from King Kong"; and it "probably [comes] from the King Kong movie." (A1643.)

graphic elements as an infringement of its rights. (A652.) Coleco Industries, Inc. ("Coleco"), a Nintendo licensee with rights to sell an electronic tabletop and home video version of Donkey Kong, was also advised of Universal's position and agreed to settle, signing an agreement on May 12, 1982 requiring the payment of royalties in exchange for a covenant not to sue. (A654.)[12] Later, after the action against Nintendo had been filed, Atari, Inc., which had obtained rights to sell a home computer version of Donkey Kong, signed a similar agreement, and in March 1983, Ruby-Spears Enterprises, Inc., which had rights to produce a Donkey Kong television series, did so as well. (A1451.) These *were* settlement agreements, signed by the parties to avoid litigation.

ARGUMENT

I

UNIVERSAL SUCCEEDED TO RKO'S TRADEMARK RIGHTS IN KING KONG AND THE COURT BELOW WAS WRONG ON BOTH THE FACTS AND THE LAW IN HOLDING OTHERWISE

Defendants' first argument below questioned Universal on the origin of its KING KONG rights and Universal responded by referring to the 1976 California court proceedings with RKO and the judgment and settlement agreements that followed. (A1251, A1260, A1291.) These documents were not ambiguous so it was understandable that the court below would see the issue as merely requiring a decision on the legal effect to be given Universal's chain of ownership.

In substance, the issue *was* simple: had Universal succeeded to RKO's trademark rights in the name and character KING KONG? Beyond question RKO had developed the rights. The

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12 Coleco, not Nintendo, had the risk of liability for infringement. Nintendo's license agreement with Coleco specifically recited that Nintendo did not warrant that Donkey Kong "will not infringe upon trademarks or copyrighted materials of others." (A309-10, A333-34.)

goodwill generated by RKO's 1933 "King Kong" film had been commercially exploited for forty years, in dozens of merchandising licenses authorizing the sale of products under the KING KONG name. What mattered in the court below was convincing Judge Sweet that the 1976 Judgment of the California court that transferred RKO's rights in the KING KONG name to Universal's assignor encompassed a transfer of the goodwill essential to the continued exploitation of the trademark rights. This is what the law requires for a valid trademark transfer. *Money Store* v. *Harriscorp Finance, Inc.*, 689 F.2d 666, 676 (7th Cir. 1982).[13]

It is equally plain that the Judgment of the California court granting Cooper all RKO's rights in the KING KONG name, with its provisions for a constructive trust arrangement, allocation of past RKO merchandising revenues, and assignment of RKO's outstanding KING KONG licenses, did transfer "goodwill" in RKO's KING KONG business. There should have been no dispute over what the Judgment said. Universal quoted from it in its brief below and cited its relevant provisions. Nevertheless, the court somehow missed the provision confirming that goodwill was being transferred, the one ordering RKO to assign to Cooper all its KING KONG merchandising business as reflected in its outstanding contracts. (A1295-96.) The relevant clause stated:

> 6. That RKO execute assignments in favor of Richard Cooper, in a form approved by the court, of each of the outstanding contracts by which RKO has or will obtain money as a result of the use of the name, character, and/or story KING KONG . . . in connection with the distribution, sale or promotion of any toys, games, books, pictures, models or any other form of merchandising.

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13 It is not necessary, however, that "tangible assets" pass to the assignee for the conveyance to transfer valid trademark rights. The decision in *Money Store* v. *Harriscorp Finance, Inc.*, 689 F.2d at 676, makes this point, and also recognizes the difficulty of determining when a transfer of goodwill has occurred, particularly in the case of a service mark.

RKO understood that it was effecting a transfer of its KING KONG licensing businesses. Its witness, William Regan, testified on the effect of the Judgment: "We can't invade the merchandising areas that Cooper and I presume now Universal has without their consent." (A437.)[14]

In point of fact, even had there been no reference in the court's Order to RKO's assigning existing KING KONG merchandising licenses to Cooper, the trademark rights would have been conveyed just as effectively. It is the substance of the transaction that controls. As the court put it in *Syntex Laboratories, Inc.* v. *Norwich Pharmacal Co.*, 315 F. Supp. 45, 54 (S.D.N.Y. 1970), *aff'd*, 437 F.2d 566 (2d Cir. 1971):

> The various technical rules connected with the assignment of trademarks . . . were not evolved for the purpose of invalidating all trademark assignments which do not satisfy a sterotyped set of formalities. Their central purpose is protection against consumer confusion, and it is in light of that goal that they are to be interpreted and applied.

The reason for the rule is the need, if consumers are not to be misled as a result of established associations with the mark, "that the mark continue to be associated with the same or

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14 Had there been any question about how RKO viewed Universal's position as successor to the rights developed in the KING KONG name, there was other evidence to resolve it. To obviate a potential claim by Nintendo that RKO as a constructive trustee under the Cooper Judgment should have been made a party to this suit, Universal obtained an assignment from RKO shortly before filing this action in which RKO assigned to Universal "all of its rights, title and interest in and to any and all causes of action for violation of United States Trademark Laws and Unfair Competition . . . arising [from] Nintendo's unlawful use of the KING KONG name, character and story." (A1298.) Universal referred to the assignment in the court below, noting that it added nothing to the substance of Universal's claim. If there is any logic in the conclusion of the court below that RKO did not effectively transfer its trademark rights in KING KONG in the Cooper Judgment, the assignment secured by Universal would effectively "close the gap."

closely similar products after its assignment." 315 F. Supp. at 55. The key to the goodwill issue is continuity of use. It was formalistic for the district court to hold the RKO-Cooper transaction "invalid" when it was obvious that once Universal succeeded to Cooper's rights it began exploiting and using them. The name KING KONG *is* being used today in association with products similar to those licensed for years by RKO. There are KING KONG licenses by Universal authorizing use of the name for electronic games and wrist watches, and a major KING KONG tour attraction at Universal Studios. There was also acknowledgment from Paramount and DDLC, RKO's last major KING KONG licensees, that they intended for Universal to continue to exploit the goodwill created by their 1976 "King Kong" motion picture in the field of merchandising. (A1660, A1682.) What the court below was looking for to demonstrate that the earlier court's Judgment *had* conveyed "goodwill" is not clear. But the cases certainly support Universal's position that what matters in a trademark assignment is (a) did the assignee continue to use the mark for the same or similar products and (b) did the assignor relinquish its right to use the mark for those products? *VISA, U.S.A., Inc.* v. *Birmingham Trust National Bank*, 696 F.2d 1371 (Fed. Cir. 1982), *cert. denied*, 104 S. Ct. 98 (1983); *Money Store* v. *Harriscorp Finance, Inc.*, 689 F.2d 666 (7th Cir. 1982); *Greenlon, Inc. of Cincinnati* v. *Greenlawn, Inc.*, 542 F. Supp. 890 (S.D. Ohio 1982); *see also Glamorene Products Corp.* v. *Proctor & Gamble Co.*, 538 F.2d 894 (C.C.P.A. 1976); *Sterling Brewers, Inc.* v. *Schenley Industries, Inc.*, 441 F.2d 675 (C.C.P.A. 1971).

The Federal Circuit's decision in *VISA, U.S.A. Inc.* v. *Birmingham Trust National Bank*, 696 F.2d 1371 (Fed. Cir. 1982), *cert. denied*, 104 S. Ct. 98 (1983), recognizing an assignee's rights in the trademark CHECK-OK for check purchasing services, illustrates what is meant by the transfer of "goodwill." Alpha Beta assigned to VISA "all right, title and interest" in the mark together with the goodwill which the mark symbolized. The Trademark Trial and Appeal Board rejected the assignment as an invalid transfer in gross, believ-

ing that no "goodwill" had actually been transferred because Alpha was continuing to use the mark under a license back arrangement and VISA's check services were different from the ones Alpha had previously offered. The appellate court reversed holding that a transfer of goodwill requires only that the services be sufficiently similar to prevent consumers from being misled from their established association with the mark. 696 F.2d at 1376. There was, of course, no transfer of physical assets, nor was this important. The key to the goodwill issue is whether the mark continues to be used with a particular product or business and here the record below amply demonstrated that it was.

The context of RKO's trademark assignment is also relevant. The California court was faced with a novel problem, one requiring a solution adaptable to the practical reality of RKO's firmly entrenched KING KONG merchandising business. In the court below Universal cited *Johanna Farms, Inc.* v. *Citrus Bowl Inc.*, 468 F. Supp. 866 (E.D.N.Y. 1978), for the proposition that the trademark and goodwill of a business can be transferred by court order. Judge Sweet found the case distinguishable, reading a paragraph in the decision (at 879) that referred to the controlling legal rule as a finding that the mark at issue (PURE MAID) "was sold along with the physical assets and goodwill" of the prior owner's business. (A178.) Judge Sweet misread the decision. The argument by the plaintiff, who had challenged a bankruptcy court order selling the mark to defendant Tropicana, was that the transfer was an invalid transfer in gross because the bankruptcy trustee had sold the bankrupt company's physical assets, the ones essential to the preservation of the mark, *prior* to ordering the sale of the mark to Tropicana. This, plaintiff argued, showed that there could not have been any goodwill for the court to transfer. However, the *Johanna* court found no evidence that physical assets were transferred to third parties or to Tropicana. It nonetheless held that the assignment was valid.

In short, Judge Sweet was wrong. There was no transfer of "assets" in *Johanna*, only an order by a bankruptcy court

reciting that the mark was being sold along with its attendant goodwill. This was sufficient to convey the trademark because Tropicana, the company that bought the mark, eventually began using it for the same business. Universal's position is parallel and there was ample evidence below that a valid transfer of RKO's trademark rights was effected by the district court's 1976 Judgment.[15]

A final point should be made on the validity of Universal's claim to KING KONG as a trademark, one that the court below also ignored. It was conceded that RKO used KING KONG as a trademark for products and that it stopped doing so as a consequence of the 1976 court order. If this amounted to an abandonment of the mark, as the district court seems to be suggesting in holding the transfer of the right to Cooper invalid, Universal has a solid basis for asserting its rights in the name by virtue of its adoption and use of the mark since 1980.

This Court's holding in *Sutton Cosmetics (P.R.)* v. *Lander Co.*, 455 F.2d 285, 288 (2d Cir. 1972) is directly on point. Schering used the trademark "Sutton" for its cosmetic products for six years and then decided to abandon it. For tax reasons it refused to sell either the mark or the goodwill, but it did sell its leftover inventory to several companies, including the plaintiff, which then began selling the inventory plus its own cosmetics under the Sutton mark. Lander also began selling cosmetics under the Sutton mark but this was over a year after plaintiff. The issue was whether plaintiff had a valid

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15 On the motion below, defendants questioned not only the RKO-Cooper Judgment but the subsequent assignment of the rights by Cooper to Universal. The district court appears to have rejected the secondary attack and indeed the language of the Cooper-Universal agreement of December 15, 1976, conveying all of Cooper's right, title and interest, legal, beneficial and equitable in the KING KONG name and character, was plainly broad enough to encompass whatever rights Cooper had secured by virtue of the judgment. (A1251.) Moreover, the fact that Cooper himself was simply an intermediary, in effect passing on the rights without actually using them, has no legal significance one way or the other. *See J.C. Hall Co.* v. *Hallmark Cards, Inc.*, 340 F.2d 960, 962-63 (C.C.P.A. 1965).

trademark sufficient to sue Lander for infringement. This Court held it did, stating that when a prior owner abandons a trademark, the one who first establishes *bona fide* use of the mark thereafter acquires valid trademark rights.

It matters little whether Universal's three years' use of KING KONG gives it "trademark in the making rights," recognized by a decision such as *National Lampoon, Inc.* v. *American Broadcasting Companies, Inc.*, 376 F. Supp. 733, 747 (S.D.N.Y. 1973), *aff'd*, 497 F.2d 1343 (2d Cir. 1974), or priority of use rights recognized by the court in *Sutton*. The cases that deal with claims over the validity of trademark rights put the stress on whether the mark is being used. When Universal filed its complaint against defendants in June 1982, it had under development two major KING KONG projects (A553-54), a pending application with the United States Patent and Trademark Office for registration of KING KONG as a trademark for digital watches (A246-47) and two outstanding licensing agreements authorizing the manufacture and sale of merchandise under the KING KONG name. (A205.) Universal meets the use test.

II

THE DISTRICT COURT APPLIED THE WRONG LEGAL STANDARD IN DETERMINING WHETHER KING KONG HAD SECONDARY MEANING AND IMPROPERLY RESOLVED THE ISSUE AGAINST UNIVERSAL

The court also held that KING KONG lacked secondary meaning as a matter of law, although it acknowledged, as it had to, that this was an issue that generally requires a trial. (A183.) *See DC Comics Inc.* v. *Reel Fantasy, Inc.*, 696 F.2d 24, 26-27 (2d Cir. 1982); *American International Group, Inc.* v. *London American International Corp.*, 664 F.2d 348, 352 (2d Cir. 1981). The court explained its holding as based on the fact that there were "competing property interests" in a KING

KONG gorilla,[16] thus robbing that symbol of its ability to denote a "single source of origin." As Judge Sweet saw the issue, Universal had to show that the public associates the KING KONG gorilla with a single motion picture producer. This was the wrong legal standard to apply.

Universal only had to establish that the public associates the KING KONG name with the "King Kong" motion pictures. *Warner Bros. Inc.* v. *Gay Toys, Inc.*, No. 83-7365 (2d Cir. Dec. 21, 1983), slip op. at 679, 681 (annexed hereto as Attachment A for the Court's convenience). In *Gay Toys*, Warner Bros. sought and obtained trademark protection for an ingredient of an entertainment product—the "character" of a 1969 Dodge Charger referred to as the "General Lee" appearing in the "Dukes of Hazzard" television series. In order to show that the "General Lee" car had secondary meaning, this Court held that Warner Bros. need only demonstrate association of the car with the television series, that a demonstration of association with the producer of the show was not necessary. Slip op. at 679. The single source denoted by an ingredient of an entertainment product *is* the product itself—the television series or motion picture—and association with that product is enough to establish secondary meaning. Slip op. at 681.

Judge Sweet did not have the benefit of the *Gay Toys* holding when he had this case before him. But apart from applying the wrong legal standard the court was clearly mistaken when it held that KING KONG lacked secondary meaning and "no longer signifies a single source of origin to consumers" because there were "competing property interests."

What the court was referring to under the rubric of "competing property interests" were the copyrights RKO and DDLC held in their respective "King Kong" motion pictures.[17] Why

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16 The court did not apply its legal analysis to the KING KONG name even though this was the main element of Universal's claim.

17 The "competing" interests also include the book publishing rights reserved to Richard Cooper, rights which the record indicates have never been exercised.

the court saw these as competing with Universal's clear—and unquestioned—right to use the *name* KING KONG, whether alone or in conjunction with the image of a large gorilla on top of a skyscraper for the sale of products and services is puzzling. There simply was no "competition" among the owners of rights in KING KONG. Witnesses for RKO, DDLC and Paramount were all categorical on the point, stating that Universal was the *only* one that today has the right to exploit the name KING KONG as a trademark in the advertising and sale of commercial products. (A437, A1681-82, A1660-62.)

Where the district court went wrong in the analysis was in first misdefining Universal's trademark. The claim is that Donkey Kong infringes Universal's trademark in the *name* KING KONG. Judge Sweet's analysis fails to address this claim, treating the entire trademark issue as if the court had before it only a claim by Universal of trademark rights in a hazy image of a large gorilla.[18]

The KING KONG name and character have secondary meaning if the public associates those elements with the 1933 and 1976 "King Kong" movies. *Warner Bros. Inc.* v. *Gay Toys, Inc.*, No. 83-7365, slip op. at 679, 681; *see also Processed Plastic Co.* v. *Warner Communications, Inc.*, 675 F.2d 852, 856 (7th Cir. 1981). Whether others claim ownership of a film copyright which they concede gives them no authority to exploit the name in any other commercial medium is not material to the issue.[19]

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18 At page 20 of its Opinion, the court states, "Exactly what shred of the King Kong character and name Universal owns is far from clear." (A180.) This was unfair. In the brief below and on the oral argument on the hearing of the summary judgment motion, Universal stressed that the trademark is the *name* KING KONG. Thus at oral argument: "We certainly claim categorically a trademark in the word King Kong when it is put on a product or a service, advertising that product and advertising that service" (A106) and "the goodwill reposes in the name King Kong" (A127) and "I think I have said it three times: [the trademark] is certainly King Kong." (A143.)

19 There was also a logical flaw in the court's analysis. It accepted that as a matter of law just because a copyrightable character or symbol has

(footnote continued)

Universal cited the RKO and DDLC films because both created goodwill for the name KING KONG which Universal can legitimately capitalize on in merchandising the KING KONG name and character. In order to establish that it has trademark rights in the name, Universal need only demonstrate that the public associates the KING KONG name and character with the "King Kong" movies—the single product source. These trademark rights were originated and developed by RKO, which licensed others (DDLC and Paramount) to use them and are now owned and exercised by Universal. Although these companies have, successively over time, created the trademark rights in the KING KONG name and character, the product source has remained the same, and Universal is the rightful owner of the trademark rights emanating from that product source. *See Warner Bros.* v. *Gay Toys, Inc.*, No. 83-7365, slip op. at 679, 681; *Processed Plastic Co.* v. *Warner Communications Inc.*, 675 F.2d at 856; *Universal City Studios, Inc.* v. *Mueller Chemical Co.*, No. 81 C 5737 (N.D. Ill. Nov. 24, 1982) (slip opinion annexed hereto for the convenience of the Court as Attachment C); *see also Universal City Studios, Inc.*, v. *J.A.R. Sales, Inc.*, 216 U.S.P.Q. 679, 680, 682 (C.D. Cal. 1982); *Universal City Studios, Inc.* v. *Kamar Industries*, 217 U.S.P.Q. 1162, 1164, 1167 (S.D. Tex. 1982); *Universal City Studios, Inc.* v. *Montgomery Ward & Co.*, 207 U.S.P.Q. 852, 855-856 (N.D. Ill. 1980).

The "Third Party Use" Issue

Judge Sweet further ruled that Nintendo had offered evidence showing that others are using KING KONG as a trade-

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fallen into the public domain does not mean that it should not be—or cannot be—protected from infringement under the trademark laws. (A172.) *See Frederick Warne & Co.* v. *Book Sales, Inc.*, 481 F. Supp. 1191, 1196 (S.D.N.Y. 1979); *see also Tempo Communications, Inc.* v. *Columbian Art Works, Inc.*, No. 80 C 1709 (N.D. Ill. Sept. 28, 1983) (slip opinion annexed hereto as Attachment B for the Court's convenience). If the use of a public domain character in a book or film does not preclude one from using the same symbol as a trademark, why should the mere fact that the one using the symbol in its public domain sense is different from the one who uses it as a trademark defeat the latter's claim? This is what the district court held.

mark and that such evidence "strengthened" his holding that Universal would be unable to show KING KONG has secondary meaning. The conclusion was inappropriate on a summary judgment motion because it subsumed fact issues and resolved them against Universal.

Nintendo offered an affidavit by "expert" Rovin along with exhibits (DX-2) which gave no information as to (a) when, (b) how or (c) for what period any of the KING KONG items cited as alleged third-party use were actually in use.[20] These omissions are important because the law recognizes that the scope of protection afforded a trademark is *not* fixed by time, because factual circumstances contributing to the strength of a mark or the issue of likelihood of confusion frequently change with the passage of time. *Old Grantian Co.* v. *William Grant & Sons, Ltd.*, 361 F.2d 1018, 1022-23 (C.C.P.A. 1966); *see also Miss Universe, Inc.* v. *Kidney Foundation of New York, Inc.*, 214 U.S.P.Q. 199, 201 (S.D.N.Y. February 26, 1981). Hence, had there been other trademark uses of the name KING KONG, this would have little bearing on the strength of the mark today.

Universal had no opportunity to cross-examine Mr. Rovin on such matters because it did not even learn of Rovin's existence until defendants moved for summary judgment. This was despite the fact that during discovery, Universal asked defendants to identify any expert witnesses they intended to call, and they identified no one. (A275-76.)[21]

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20 These may have occurred years ago and RKO did give testimony that, "[d]uring the remake of King Kong there was a great rash of King Kong rip-offs, if you want to call them that, and these were brought to [RKO's] attention from different sources." (A511.)

21 These defects aside, the exhibits to the Rovin affidavit (DX-2) are of questionable value. At least 61 of the examples given (Exh. 1-17, 19-38, 41-45, 48-58 and 60-67) represent gorilla images in literature, motion pictures, and cartoons, and cannot fairly be characterized as trademark uses of the KING KONG name or character at all. Another 24 items (Exh. 68, 70-76, 82, 84-86, 88-96, 98-100) do not even use the name KING KONG. The 16 remaining exhibits pose little threat to Universal's entertainment business. *Cf.* "Kong" cookies from an

(footnote continued)

In any event, the sixteen undated alleged trademark "uses" of the KING KONG name or character cited in the Rovin affidavit are not evidence on which a determination about secondary meaning should be made on a motion for summary judgment. *Compare* 1 J. Gilson, *Trademark Protection and Practice*, 2.09[1] at 2-83 (rev. ed. 1983), on which Judge Sweet relied, where Gilson describes the factual determinations which must be made in assessing such proof. Judge Sweet also stated "there are third party uses of King Kong marks whose existence Universal does not dispute . . . ." (A184.) This was misleading. Universal does not dispute that there are *non-trademark* third party uses of King Kong, *e.g.*, where King Kong is used as a nickname or metaphorically (DX-3), but it does certainly dispute that Nintendo's evidence established *current* third party *trademark* uses of KING KONG.

As to the several trademark registrations on which the district court relied, it is well settled that registrations are not considered evidence of actual use. "The existence of these registrations is not evidence of what happens in the marketplace or that customers are familar with them . . . ." *AMF Inc.* v. *American Leisure Products, Inc.*, 474 F.2d 1403, 1406 (C.C.P.A. 1973); *see also Blake Publishing Corp.* v. *O'Quinn Studios, Inc.*, 202 U.S.P.Q. 848, 857 n.5 (S.D.N.Y. 1979).

The trademark registrations which defendants submitted below were equally unconvincing. Ten of them have expired, been abandoned or cancelled, five are owned by Universal and one (Donkey Kong) is obviously Nintendo's. Another eighteen were for such names as King, Kingsonic, King Hamlet, King Pin, King of the Hill, King of Toys, King Tut's Games, Kingsway, King of Video (4 applications), Kings Dominion, Kings Island, King Louie, Kings Point, Cheng Kong and Hong Kong, and five covered products remote from Universal's

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unidentified bakery. (Exh. 83.) Some even distinguish themselves from KING KONG. (*see*, *e.g.*, Exh. 18, 39 and 40.) All of them give no indication when or where the exhibits appeared. (Exh. 18, 39-40, 46-47, 59, 69, 77-81, 83, 87, 97, 101.) In fact, the record shows that the "Kid Kong" toy (Exh. 78) is no longer sold. (A254.)

legitimate area of concern—floor coverings, shoes and perfume.[22]

In short, it was error for the court to cite or rely on such evidence and it illustrates how it resolved fact issues against Universal by ignoring "a reasonable conflicting interpretation of a material disputed fact." *Schering Corp.* v. *Home Insurance Co.*, 712 F.2d at 9.[23]

It was also relevant that Universal offered evidence showing that Nintendo intended its gorilla character to be KING KONG. (A187.) In point of fact, Universal presented evidence establishing that Nintendo referred to the gorilla character in Donkey Kong as KING KONG (A669) and had KING KONG under consideration as one of the names for the game. (A667.) As Nintendo's counsel stated at the oral argument below:

> There is no doubt . . . the King Kong gorilla was pervasive as part of the[ ] backgrounds [of the Japanese defendants.] . . . [I]t would be unbelievable if I told you those witnesses said when they started talking about a gorilla and put a gorilla on the top of what had been a pier structure, and then they made it into a building structure and started calling it Kong that they didn't have somewhere in the back of their mind Kong.

(A73.) Judge Sweet slighted this evidence even though there is substantial legal authority holding that a willful intention to capitalize on another's symbol is "the most significant evidence of secondary meaning . . . . " *Harlequin Enterprises, Ltd.* v. *Gulf & Western Corp.*, 644 F.2d 946, 950 (2d Cir. 1981).

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22 As for the remaining five registrations—"The Amazing Kong" and "Kong" for toys for pets, "King Kong" for fireworks, "King Conga" for drums and "King Pong" for tennis games—Universal contacted or attempted to contact the owners of these registrations, and thereby concluded that none of these marks were presently being used. (A253-58.)

23 Judge Sweet's awareness that he was resolving an issue of fact is implicit in his statement that Nintendo's evidence of third party use would not "independently" justify summary judgment. (A184.)

III

THERE WAS PERSUASIVE EVIDENCE THAT REASONABLE PERSONS COULD FIND THAT BUYERS OF DONKEY KONG WERE LIKELY TO BELIEVE IT WAS SPONSORED BY THE SOURCE OF KING KONG PRODUCTS AND THE DISTRICT COURT SHOULD NOT HAVE RESOLVED THE ISSUE BY SUMMARY JUDGMENT

Universal accepted that by establishing secondary meaning for the name KING KONG it was meeting a legal requirement akin to a "first step." It still had to establish that buyers, when confronted with Nintendo's Donkey Kong, are likely to think there is a connection between it and KING KONG such as to indicate a common origin. The court below thought the matter could be resolved simply by looking at the Nintendo game and comparing it to the KING KONG gorilla shown in the RKO and DDLC films. The Court's approach was unfortunate—and it certainly should not have compelled the conclusion Judge Sweet reached on this record.[24]

The first problem with the way the district court saw the confusing similarity issue is that it focused on a secondary element in Universal's claim and virtually ignored the one Universal regards as primary. The issue is whether Donkey Kong is confusingly similar to the *name* KING KONG, not simply whether Nintendo's gorilla looks like the ones in the "King Kong" movies or the one on the video game sold by Tiger, Universal's licensee. (A220-22.)[25]

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24 Judge Sweet cited *Warner Bros. Inc.* v. *American Broadcasting Companies, Inc.*, 720 F.2d. 231 (2d Cir. 1983), which sanctioned the summary disposal of copyright and trademark claims perceived by this Court as on the "outer limits." There is a controlling difference between that and this case. Here (a) Nintendo's game bears a name that derives directly from KING KONG whereas the names there (Superman v. The Greatest American Hero) bore no such relation and (b) there was evidence below by Nintendo acknowledging a confusing similarity of names and also a trademark survey confirming it.

25 In making his visual comparison, Judge Sweet not only neglected to compare the names KING KONG and Donkey Kong, he mistakenly

(footnote continued)

There was, moreover, evidence before the court demonstrating that there was a question of fact whether the two names are confusingly similar. Nintendo USA's president, Mr. Arakawa, has complained in other proceedings that Donkey Kong and KING KONG are confusingly similar names. (A297.) The district court ignored this admission, but on a summary judgment motion it did raise an issue of fact. There was other evidence supporting Universal's claim. Nintendo acknowledged how the name of a video arcade game can be important to its commercial success, noting how a movie title or character's name is a valuable asset. (A613, A1433.) Donkey Kong does evoke KING KONG, and the connection between the two is reinforced by Donkey Kong's depiction of a large gorilla—comical or otherwise—on top of a building. There was in short a factual issue on whether confusion was likely to result because of the name, especially given "the tendency of the consuming public to associate a relatively unknown mark with one to which they have long been exposed if the mark bears any resemblance thereto." *R.J. Reynolds Tobacco Co.* v. *R. Seelig & Hille*, 201 U.S.P.Q. 856, 860 (T.T.A.B. 1978).

Universal also submitted evidence that others do find KING KONG and Donkey Kong confusingly similar. Video game commentators, including Nintendo's witness Rovin, have recognized the Donkey Kong character as plaintiff's KING KONG. (A1503-70.) The commentators make the same point:

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relied on the comparison made by this Court between Superman and The Greatest American Hero in *Warner Bros. Inc.* v. *American Broadcasting Companies, Inc.*, 720 F.2d at 246. That case is inapposite on this issue because defendants there established evidence of a genre of superheroes of which the two characters to be compared were members, evidence which plaintiffs did not dispute. *Warner Bros. Inc.* v. *American Broadcasting Companies, Inc.*, 654 F.2d 204, 210 (2d Cir. 1981). This Court found that the similarities between those two superheroes were "widely shared within the superhero genre." 720 F.2d at 243. This is not the case here. Universal vigorously disputes the existence of a "Kong" genre, thus creating another fact issue. Similarities between KING KONG and Donkey Kong should be afforded a good deal more weight than similarities shared by two of hundreds of superheroes.

- King Kong . . . has much in common with the video villain [Donkey Kong] (A1505)
- Donkey Kong [is] a video version of the film classic King Kong (A1516)
- Whoever dreamt up Donkey Kong obviously had the 1933 version of *King Kong* in mind (A1523)
- King Kong Goes Coin-Op (A1529)
- Donkey Kong takes elements from two classics—*Don Quixote* and *King Kong* (A1535)
- The [Donkey Kong] game begins with King Kong grabbing Fay Wray (A1562)[26]

Nintendo saw this as a potential problem, writing to "correct the record" and disavow the connection with KING KONG. A form letter from Nintendo USA's Schoenecker to these commentators argues:

> there is no connection, authorization, sponsorship, or other association between the DONKEY KONG games and the film classic KING KONG or the producers (or successors) of such film.

(*E.g.*, A805.) This is an implicit admission by defendants that commentators *connect* Donkey Kong with the "King Kong" movies. *See Dallas Cowboys Cheerleaders, Inc.* v. *Pussycat Cinema, Ltd.*, 604 F.2d 200, 205 (2d Cir. 1979). The connection people make between the Donkey Kong and KING KONG characters is such that people call the Nintendo character by Universal's name, KING KONG.[27]

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26 In addition, one newspaper reporter referred to the building structure in Donkey Kong as the Empire State Building (A1608-09), and in reporting on the KING KONG balloon which Universal licensed for the promotion at the Empire State Building last Spring, one television broadcaster referred to the episode as "the giant game of Donkey Kong at the top of the Empire State Building . . . ." (A1614.)

27 Serious questions of credibility arise in assessing defendants' denial of the connection people make between KING KONG and Donkey

(footnote continued)

Universal's Survey

That confusion is likely in this case is further supported by Universal's evidence of *actual* confusion. The district court read Universal's survey evidence as showing that 18% of the video arcade operators questioned said they thought Donkey Kong had been approved by the owners of King Kong." (A187.)[28] But it then went on to disregard it.

This was good evidence as to the buyer's perception of where Donkey Kong originates—and it was probative of the "likelihood that an appreciable number of ordinary prudent purchasers will be misled, or simply confused, as to the source of the goods in question." (A185 *quoting Lever Brothers Co.* v. *American Bakeries Co*, 683 F.2d 251, 253 (2d Cir. 1983).)[29] A

Kong. Apart from defendants' compulsion to disavow the connection, the testimony of Ronald Judy of Nintendo USA is on point. Judy testified that prior to the commencement of this lawsuit he had never heard KING KONG and Donkey Kong compared. (A398-99.) Yet he assisted the author of *The Winners' Book of Video Games*, a book which describes Donkey Kong as "a video version of the film classic *King Kong*" (A1516), and he gave an interview to a *RePlay* magazine reporter and discussed Donkey Kong with him. (A400-01.) The resulting *RePlay* article stated: " 'Donkey Kong' is a cute game loosely based on the King Kong theme." (A1603.)

28 A confusion level of 18% is significant. *See Grotrian, Helfferich, Schulz* v. *Steinway & Sons*, 365 F. Supp. 707 (S.D.N.Y. 1973), *aff'd*, 523 F.2d 1331 (2d Cir. 1975), where confusion levels of 7.7% and 8.5% were considered "strong evidence of likelihood of confusion." 365 F. Supp. at 716. Moreover, those interviewed fall into the class of more sophisticated consumers of the Donkey Kong game. Actual game players, who undoubtedly include children, are presumably less sophisticated and more easily confused. *See Blake Publishing Corp.* v. *O'Quinn Studios, Inc.*, 202 U.S.P.Q. at 858; *Lone Ranger, Inc.* v. *Cox*, 124 F.2d 650, 652 (4th Cir. 1942).

29 The district court apparently did not consider the video arcade owners who bought Donkey Kong "consumers" because it stated that Universal submitted no evidence of actual confusion among consumers. (A171.) This was error. *See Mattel, Inc.* v. *Azrak-Hamway International, Inc.*, No. 83-7813 (2d Cir. Dec. 23, 1983) (slip opinion annexed hereto for the convenience of the Court as Attachment D) (perceptions of "customers, retailers, salesmen or the like" relevant on the issue of actual confusion).

belief on the part of those who buy the game that it was approved by those responsible for KING KONG establishes far more than association between Donkey Kong and KING KONG. The survey offered in *Warner Bros. Inc.* v. *American Broadcasting Companies, Inc.*, 720 F.2d at 246, showed only association and for Judge Sweet to cite it against Universal here was wrong.

The district court disregarded the survey evidence and concluded that Donkey Kong differed from KING KONG because the former was "farcical, childlike and nonsexual," while the latter was "a ferocious gorilla in quest of a beautiful woman." (A187.)[30] These qualities, said Judge Sweet, made Donkey Kong "a parody" of KING KONG. (A187.) But then, citing *Warner Bros. Inc.* v. *American Broadcasting Companies, Inc.*, 720 F.2d at 242-243, he went on to conclude (incorrectly) that parodies cannot be a trademark infringement. This reflected a misreading of the *Warner Bros.* case. When this Court addressed the "parody" issue there it was speaking of the fair use doctrine under copyright law. That doctrine allows for adjustments of conflicts between the First Amendment and the copyright laws. *See Wainwright Securities Inc.* v. *Wall Street Transcript Corp.*, 558 F.2d 91, 92 (2d Cir. 1977), *cert. denied*, 434 U.S. 1014 (1978). This Court has also indicated that the fair use doctrine is *not* applicable to trademark infringements. "Because the primary purpose of the trademark law is to protect the public from confusion [citation omitted], it would be somewhat anomalous to hold that the confusing use of another's trademark is 'fair use.'" *Dallas Cowboys Cheerleaders, Inc.* v. *Pussycat Cinema, Ltd.*, 604 F.2d at 206 n.9; *see also Chemical Corp. of America* v. *Anheuser-Busch, Inc.*, 306

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30 Nintendo's evidence really does not support the court's characterization. In Donkey Kong the gorilla kidnaps a woman, a woman portrayed as scantily clad and sensual. (DX-1, Exh. 12, 23, 24; A735, A761.) Donkey Kong holds the woman hostage and fights the man attempting to free her. In the fight, Donkey Kong uses a variety of explosive devices, not unlike those appearing at the conclusion of the 1976 "King Kong" movie. (X-4.) Donkey Kong exhibits "ferocious" anger (he becomes "fighting mad"—A795) and cunning. (A784-85.)

F.2d 433 (5th Cir. 1962), *cert. denied*, 372 U.S. 965 (1963); *Coca-Cola Co.* v. *Gemini Rising, Inc.*, 346 F. Supp. 1183, 1191 (E.D.N.Y. 1972).

Nintendo's Intentional Copying

The court's disposition of Universal's evidence regarding Nintendo's intent was also improper. It acknowledged that Universal "proffered evidence tending to show that Nintendo intended its gorilla character to be King Kong . . . ." (A187.) And, of course, Nintendo's counsel admitted this. (A73.) The legal principle directly applies: where there is "intentional copying the second comer will be presumed to have intended to create a confusing similarity of appearance and will be presumed to have succeeded." *Perfect Fit Industries, Inc.* v. *Acme Quilting Co.*, 618 F.2d 950, 954 (2d Cir. 1980), *cert. denied*, 103 S. Ct. 73 (1982). This is a presumption that can only be discarded where no fair jury issue exists as to likelihood of confusion, *Warner Bros. Inc.* v. *American Broadcasting Companies, Inc.*, 720 F.2d at 247.

The Court Below Misapplied The Polaroid Factors

After reaching the conclusion that buyers of Donkey Kong were not likely to be confused about the origin of the product, the district court looked to the factors applied to trademark claims in *Polaroid Corp.* v. *Polarad Electronics Corp.*, 287 F.2d 492 (2d Cir.), *cert. denied*, 368 U.S. 820 (1961), and stated they "confirm[ed]" the result. What the court was doing, of course, was deciding issues of fact, this being the nature of any court's application of *Polaroid* to the claims before it. *Plus Products* v. *Plus Discount Foods, Inc.*, 722 F.2d 999, 1004 (2d Cir. 1983).

Because the district court's factual conclusions were wrong, its assessment of the *Polaroid* factors was necessarily incorrect. As to the strength of the KING KONG mark, Judge Sweet relied on his earlier conclusion that the mark had no secondary meaning and hence was weak. In discussing the similarity of the marks, the court again failed to focus on the names. It

correctly acknowledged the proximity of the marks, but disregarded Universal's evidence of actual confusion, and after admitting that "with respect to Nintendo's good faith, the evidence is in conflict" (A189), the court decided that Nintendo's evidence "argue[s] against a view that Nintendo consciously sought to take advantage of the popularity of King Kong" (A189), thus resolving yet another fact issue against Universal.

Universal's Covenants Not To Sue Donkey Kong Licensees

The court cited settlement agreements several Donkey Kong licensees signed with Universal as evidence that Universal believed Donkey Kong was not likely to cause confusion among buyers. Again in doing this it was obviously resolving a fact issue—*i.e.*, did Universal believe Donkey Kong and KING KONG not to be confusingly similar?—contrary to the rules to be applied on a summary judgment motion.

In point of fact the Universal agreements are similar to the one before the court in *T & T Manufacturing Co.* v. *A.T. Cross Co.*, 587 F.2d 533 (1st Cir. 1978), *cert. denied*, 441 U.S. 908 (1979), a case Universal cited which the court below ignored. Cross owned trademark registrations for black and gold conical tops as marks on pens and pencils, and claimed trademark rights in the marks and in a silver conical top. Plaintiff's predecessor ("Quill") manufactured pens and pencils with black, silver and gold conical tops on pens. Cross and Quill entered into an agreement whereby Cross agreed not to sue Quill "for unfair competition, infringement of [its] trademark or infringement of [its] trademark registrations." 587 F.2d at 535. Universal made the similar commitment not to sue three of Nintendo's licensees. (*E.g.*, A654.)

The Court of Appeals for the First Circuit held that the Cross agreement was not an assignment or license of a trademark, but a limited contract right to be free of suit. 587 F.2d at 537. The Court here came to the opposite conclusion, finding that Universal's agreements "purport to authorize the use of a Universal mark" indicating "Universal's abandonment of that

mark or the inability of the mark to designate a single source." (A190.) But Judge Sweet then went further and stated that the agreements show that "Universal did not believe that Donkey Kong would be confused with King Kong." (A191.) This was illogical and contrary to Universal's testimony explaining that it was motivated to settle with the Donkey Kong licensees because it was a pragmatic and commercially attractive alternative to litigation. (A585-88.) Moreover, the cases that have dealt with the issue have accepted that because a trademark owner agrees not to sue an infringer does not mean there is no likelihood of confusion. *See T & T Manufacturing Co.* v. *A.T. Cross Co.*, 449 F. Supp. 813 (D.R.I.), *aff'd*, 587 F.2d 533 (1st Cir. 1978), *cert. denied*, 441 U.S. 908 (1979); *cf. Playboy Enterprises, Inc.* v. *Chuckleberry Publishing Co.*, 687 F.2d 563, 568 (2d Cir. 1982) (covenant not to sue one magazine publisher over use of word "play" was not an admission that use of word "play" by another magazine publisher would not be likely to confuse consumers).

The cases on which the district court relied are also distinguishable. In *Croton Watch Co.* v. *Laughlin*, 208 F.2d 93 (2d Cir. 1953), this Court saw a 1939 agreement in which defendant Movado had consented to plaintiff's use of "Nivada Grenchen" for watches as an admission that this name would not be confused with "Movado." But it arrived at the conclusion (as it points out in its opinion, 208 F.2d at 96), because Movado (a) offered *no* evidence supporting the possibility of confusion and (b) had taken the position that by adding the word "Grenchen" to the Nivada trademark the goods could be distinguished. In light of Universal's strong showing here on the issue of confusion, *Croton Watch* is not analogous.

It is the same with *Mushroom Makers Inc.* v. *R.G. Barry Corp.*, 441 F. Supp. 1220 (S.D.N.Y. 1977), *aff'd*, 580 F.2d 44 (2d Cir. 1978), *cert. denied*, 439 U.S. 1116 (1979). The issue there was whether the trademarks Mushroom and Mushroom Makers for women's jeans and jackets infringed the mark Mushroom for women's shoes and sandals. The court found that an agreement in which defendant permitted another to use

Mushroom Hunter for shoes was inconsistent with its present claim. But this was *after* a bench trial in which there was no proof of the likelihood of confusion, not a summary judgment motion. Moreover, the court cited the point to corroborate its finding of no confusion, not to resolve the issue. Perhaps this is why Judge Sweet admitted that "this evidence would not independently call for summary judgment on the issue of likelihood of confusion . . . ." (A191.) In light of the court's clear error in holding that there is no likelihood of confusion as a matter of law, the treatment of the covenants not to sue is another irrelevant red herring.[31]

IV

THERE ARE SERIOUS ISSUES OF FACT AS TO WHETHER THERE IS A LIKELIHOOD OF DILUTION

Concededly, to establish a dilution claim, Universal must have a strong mark, and there must be sufficient similarity between its mark and Nintendo's mark to indicate the likelihood of blurring. The district court concluded that Universal's dilution claim failed because "King Kong lacks secondary meaning as a matter of law." (A192.)

With respect to the issue of the strength of the KING KONG mark, to be entitled to summary judgment, strength of the mark *must* be conceded, *compare Warner Bros. Inc.* v. *American Broadcasting Companies*, 720 F.2d at 246 n.12, or issues of fact are raised comparable to those relating to the question of secondary meaning, and summary judgment is inappropriate. *See American International Group, Inc.* v. *London American International Corp.*, 664 F.2d at 352. Given the court's misapprehension as to the legal and factual determinations relevant to ascertaining the strength of KING KONG, its conclusion as to the application of the New York dilution statute proceeds from a flawed premise.

31 Moreover, it was unfair of the district court to consider these settlement agreements "admissions" by Universal, but to disregard Nintendo's even more damaging admission as to the confusing similarity between the names KING KONG and Donkey Kong.

Furthermore, the district court's conclusion that no blurring between KING KONG and Donkey Kong is possible only applies if one presumes that there is insubstantial similarity between the *names* and the characters. Even Arakawa, President of Nintendo USA, admits that this is not the case. (A292.) In addition, public perception evidence submitted by Universal demonstrated that the potential for the "blurring" of the two marks to be high given the repeated instances where Donkey Kong is referred to simply as Kong, even by defendants. (A1502-26, A1531-36, A1541-98.) Finally, as discussed above, clear factual issues exist as to defendants' bad faith in adopting Donkey Kong as their mark, issues the district court improperly resolved against Universal. Consequently, summary judgment should not have been granted on Universal's dilution claims.

V

THERE ARE SERIOUS ISSUES OF FACT AS TO WHETHER DEFENDANTS MISAPPROPRIATED UNIVERSAL'S PROPERTY

After the district court granted summary judgment for defendants on Universal's Lanham Act and state dilution claims, it dismissed Universal's "pendent state-law claims" without any explanation (A192), notwithstanding the fact that the court had jurisdiction over these claims under diversity principles. Judge Sweet's failure to address Universal's common law unfair competition claims was error because his resolution of Universal's Lanham Act claim was not dispositive of its common law claims. *See Gemveto Jewelry Co.* v. *Jeff Cooper Inc.*, 568 F. Supp. 319, 335 (S.D.N.Y. 1983) (plaintiff entitled to injunctive relief on its common law unfair competition claims although no Lanham Act violation found); *see also Commerce Foods, Inc.* v. *PLC Commerce Corp.*, 504 F. Supp. 190 (S.D.N.Y. 1980) (to the same effect).

With respect to its common law unfair competition claims, Universal does not have to establish secondary meaning. *Per-*

fect Fit Industries Inc. v. *Acme Quilting Co.*, 618 F.2d at 952-53. "[I]n essence, an action for unfair competition turns not upon the acquisition of a secondary meaning but upon whether the acts of the defendant can be characterized as unfair." *Allied Maintenance* v. *Allied Mechanical Trades, Inc.*, 42 N.Y.2d 538, 543-44 n.2, 399 N.Y.S.2d 628, 631 n.2, 369 N.E.2d 1162, 1164 n.2 (1977). Whether defendants' Donkey Kong game and licensing program violate common law unfair competition principles and misappropriate Universal's right to exploit the KING KONG property turns on the determination of likelihood of confusion. Because serious factual questions are raised on this issue, summary judgment on these claims was inappropriate. A good case in point is *American Broadcasting Company Merchandising Inc.* v. *Button World Manufacturing, Inc.*, 151 U.S.P.Q. 361 (Sup. Ct. N.Y. Co. 1966). Predecessors of plaintiffs had broadcast a successful radio program series under the name "Green Hornet." Plaintiffs had just inaugurated a television show of the same name and had acquired all merchandising rights to the radio series. Licensees of plaintiffs manufactured buttons on which the name "Green Hornet" appeared. On these facts, the court enjoined Button World from selling a button with the legend "Official Member Super Hero Hornet Society" because it had used "the very name which plaintiffs have popularized and which is associated in the public mind with their broadcasting programs." 151 U.S.P.Q. at 362. The fact that "competing property interests" in plaintiffs' broadcasting programs existed did not influence the court in any way.

The district court here completely ignored Universal's misappropriation claim. The name and character KING KONG *are* valuable merchandising properties. "It is common practice in the entertainment industry to exploit commercially the popularity of well-known motion picture and television personalities and characters in connection with a wide range of merchandise, and the public has come to expect such exploitation." *Universal City Studios, Inc.* v. *J.A.R. Sales*, 216 U.S.P.Q. at 682; *see also Warner Bros. Inc.* v. *Gay Toys, Inc.*, 658 F.2d 76,

79 (2d Cir. 1981). Universal's survey shows that many who have bought the Donkey Kong game believe that it does exploit KING KONG and think it was sponsored or authorized by the "King Kong" motion picture maker. At the very least, the survey raised a question of fact as to whether Nintendo reaped where it had not sown. *See International News Services* v. *Associated Press*, 248 U.S. 215 (1918); *see also Flexitized, Inc.* v. *National Flexitized Corp.*, 335 F.2d 774, 781-82 (2d Cir. 1964), *cert. denied*, 380 U.S. 913 (1965). In light of defendants' admission that they based the game on the KING KONG gorilla and that they initially named the gorilla KING KONG (A669), there are questions of fact as to whether defendants have "poached upon the commercial magnetism of [KING KONG]." *Mishawaka Rubber & Woolen Manufacturing Co.* v. *S.S. Kresge Co.*, 316 U.S. 203, 205 (1942). Universal's claims of unfair competition should also be allowed to go to trial.

CONCLUSION

For the foregoing reasons, the district court's grant of summary judgment dismissing Universal's complaint should be reversed.

Respectfully submitted,

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March 16, 1984

ATTACHMENT A

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

No. 161—August Term, 1983

(Argued October 26, 1983 Decided December 21, 1983)

Docket No. 83-7365

WARNER BROS. INC.,

Plaintiff-Appellee,

—v.—

GAY TOYS, INC.,

Defendant-Appellant.

Before:

LUMBARD, OAKES, and KEARSE,

Circuit Judges.

Appeal from an order of the United States District Court for the Southern District of New York, Whitman Knapp, *Judge*, finding that Gay Toys violated § 43(a) of the Lanham Act and enjoining it from continuing to

manufacture or sell toy cars resembling the "General Lee" car featured in the "Dukes of Hazzard" television series.

Affirmed.

ROBERT G. MENTAG, Detroit, MI (Milton Wolson, New York, NY, Bernard Malina, New York, NY, of counsel), *for Appellant*.

ARTHUR J. GREENBAUM, New York, NY (Carol F. Simkin, Louis S. Ederer, Jane Ginsburg, Cowan, Liebowitz & Latman, New York, NY, Michael Davis, Weiss, Dawid, Fross, Zelnick & Lehrman, New York, NY, of counsel), *for Appellee*.

OAKES, *Circuit Judge*:

This is the rather unusual case of an appeal from the grant of a final injunction after this court had directed the district court to enter a preliminary injunction. *Warner Bros. Inc. v. Gay Toys, Inc.*, 658 F.2d 76 (2d Cir. 1981). On remand, the United States District Court for the Southern District of New York, Whitman Knapp, Judge, granted summary judgment for Warner Bros. Inc. (Warner), on its claim under Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a) (1976), that the toy cars marketed by Gay Toys, Inc. (Gay Toys), and patterned after

the "General Lee,"[1] an automobile featured in Warner's television series "The Dukes of Hazzard," tended to confuse purchasers as to their source or sponsorship. We affirm.

Our previous opinion held that (1) unregistered trademarks are protected under § 43(a), 658 F.2d at 77-78; (2) protection may extend to symbols associated with specific ingredients of successful television series such as the symbols which identify the "General Lee," *id.* at 78; (3) to obtain an injunction under § 43(a) only a likelihood of confusion as to source or sponsorship need be shown, *id.* at 79; and (4) Gay Toys' use of the "General Lee" symbols created a likelihood of confusion as to the source or sponsorship of the toy cars, *id.* at 78, 79. We rejected Gay Toys' argument that for likelihood of confusion to exist it was necessary that Warner be the manufacturer of the real "General Lee" toy car. *Id.* at 79.[2]

On remand the district court, after questioning the applicability of the Lanham Act in the first instance, 553 F. Supp. at 1019, said that our opinion "conclusively presumed" both the desire of Warner's audience for officially sponsored toys and the deliberate creation by Gay Toys of sufficient confusion to invoke the Act. *Id.* at 1020. The court, then, assumed that the consumers'

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1 Warner's "General Lee" is an imitation 1969 Dodge Charger of bright orange color with a Confederate flag emblem on the car roof and the numerals "01" placed on the door. Gay Toys' imitations, made after failure to obtain a license from Warner, while taking various forms and bearing a different name, usually had the same emblems except for a reversal of the numbers to "10." Upon complaint from Gay Toys' customers that the numerals were incorrect, Gay Toys would send them labels of a "1" and a "0," informing the customer to affix the numbers as he saw fit.

2 The district court had previously held that Warner's failure to have a reputation as a toy car maker was relevant. *Warner Bros. Inc. v. Gay Toys, Inc.*, 513 F. Supp. 1066, 1069 (S.D.N.Y. 1981).

motivation in desiring to buy officially sponsored toys was somehow relevant in establishing the requisite secondary meaning to show identification with a source. It concluded that in our earlier opinion we "presumed" that consumers' desire for the "official" toy demonstrated this motivation. The court then rejected the defense that the design of the "General Lee" is "functional" insofar as the symbols are required to permit children to play "The Dukes of Hazzard" with the toy car. *Id.* at 1020-21. It also rejected defenses of abandonment and lack of clean hands. 553 F. Supp. at 1020-21.

On this appeal Gay Toys renews the argument of "functionality" made below. It further claims that because "consumer motivation" is a necessary element of secondary meaning required to show identification with a source, and proof of such was lacking here, the district court decision (and by implication, at least, our previous decision) was contrary to a long line of authority in this court.[3] Finally it argues that the district court erred in rejecting as a matter of law the defenses of lack of clean hands and abandonment by "naked licensing."

Functionality

Functional symbols (those that are essential to a product's use as opposed to those which merely identify it) are not protected under § 43(a), *see, e.g., Vibrant Sales, Inc.*

[3] Our previous decision ordering the district court to issue a preliminary injunction referred without discussion to the "General Lee" symbols as "non-functional," 658 F.2d at 77, and addressed the question of likelihood of confusion as to source and sponsorship. That decision, however, does not foreclose consideration of the arguments Gay Toys makes on appeal from an order granting a final injunction. *See Hamilton Watch Co. v. Benrus Watch Co.*, 206 F.2d 738, 742 (2d Cir. 1953); 11 C. Wright & A. Miller, *Federal Practice and Procedure* § 2950, at 494-96 (1973). *See also Imperial Chemical Industries Ltd. v. National Distillers & Chemical Corp.*, 354 F.2d 459, 463 (2d Cir. 1965).

v. New Body Boutique, Inc., 652 F.2d 299, 303 (2d Cir. 1981), *cert. denied*, 455 U.S. 909 (1982). Gay Toys claims the "General Lee" symbols in question are functional in the sense that they are essential to enable children to play "Dukes of Hazzard" with the cars. This is a paradoxical argument, since it is precisely the fact that the symbols provide identification that make them "functional" in the sense urged on us by Gay Toys, while Warner's exclusive right to use its own identifying symbols is exactly what it seeks to protect. Carried to a logical conclusion, Gay Toys' argument would enlarge the functionality defense so as to eliminate any protection for any object, since presumably each feature of any object is designed to serve a particular "function" in Gay Toys' sense of the term.

Warner's position is that functionality should be considered in terms of toy cars generally and not "Dukes of Hazzard" toy cars specifically, so that, for example, the use of wheels cannot be protected, but the Confederate flag marking coupled with the numerals, all on a bright orange background, can be. It cites *In re DC Comics*, 689 F.2d 1042, 1045 (C.C.P.A. 1982) (dolls generally and not Superman dolls are the class by which functionality is determined), and language of this court relying upon a law review note that identifies functional features as those "having value independent of identification." *Vibrant Sales, Inc.*, 652 F.2d at 303 (citing *Developments in the Law—Competitive Torts*, 77 Harv. L. Rev. 888, 918 (1964)).

Gay Toys relies primarily on a Ninth Circuit case which held that an identifying insignia of a fraternal organization is functional and nonprotectable as a trademark when used on jewelry, at least as long as no one is confused that the jewelry was made or licensed by the fraternity. *International Order of Job's Daughters v.*

Lindeburg & Co., 633 F.2d 912, 919 (9th Cir. 1980), *cert. denied*, 452 U.S. 941 (1981). Though the decisions of various circuits are not uniform on this question, we agree with Warner both on grounds of logic and of policy.

While there has been some confusing language in the case law, particularly that linking what is functional to the commercially successful features of a product, *see In re DC Comics, Inc.*, 689 F.2d at 1045 (discussing cases), an examination of the roots and purposes of the functionality doctrine suggests coherent limits to its use. In *Singer Manufacturing Co. v. June Manufacturing Co.*, 163 U.S. 169, 184-85 (1896), the Supreme Court held that the form, size, shape, and appearance of sewing machines once protected by various patents fell into the public domain upon expiration of the underlying patents. The shape or form necessary to the once patented features, even though distinctive and identifying, could be copied without competing unfairly.

Applying the teaching of *Singer* to an attempt to copy design features of an early version of the vacuum cleaner in an unfair competition suit, the Seventh Circuit said in *Pope Automatic Merchandising Co. v. McCrum-Howell Co.*, 191 F. 979, 981-82 (7th Cir. 1911):

> Development in a useful art is ordinarily toward effectiveness of operation and simplicity of form. Carriages, bicycles, automobiles, and many other things from diversity have approached uniformity through the utilitarian impulse. If one manufacturer should make an advance in effectiveness of operation, or in simplicity of form, or in utility of color; and if that advance did not entitle him to a monopoly by means of a machine or a process or a product or a design patent; and if by means of unfair

> trade suits he could shut out other manufacturers who plainly intended to share in the benefits of the unpatented utilities and in the trade that had been built up thereon, but who used on their products conspicuous name-plates containing unmistakably distinct trade-names, trade-marks, and names and addresses of makers, and in relation to whose products no instance of deception had occurred—he would be given gratuitously a monopoly more effective than that of the unobtainable patent in the ratio of eternity to 17 years.

See also Flagg Manufacturing Co. v. Holway, 178 Mass. 83, 59 N.E. 667 (1901) (Holmes, C.J.) (holding design of zither not protectable: "In the absence of a patent the freedom of manufacture cannot be cut down under the name of preventing unfair competition.").

More recently courts have continued to understand the functionality defense as a way to protect useful design features from being monopolized. The Supreme Court, in *Inwood Laboratories, Inc. v. Ives Laboratories, Inc.*, 456 U.S. 844, 850-51 n.10 (1982) (dictum), defined a functional feature as one that "is essential to the use or purpose of the article or [that] affects the cost or quality of the article." A design feature of a particular article is "essential" only if the feature is dictated by the functions to be performed; a feature that merely accommodates a useful function is not enough. *In re Morton-Norwich Products, Inc.*, 671 F.2d 1332, 1342 (C.C.P.A. 1982) (shape of plastic container for spray products not essential to its purpose as a sprayer). And a design feature "affecting the cost or quality of an article" is one which permits the article to be manufactured at a lower cost, *e.g.*, *Kellogg Co. v. National Biscuit Co.*, 305 U.S. 111,

122 (1938) (pillow shape of shredded wheat biscuit functional as cost would be increased and quality lessened by other form), or one which constitutes an improvement in the operation of the goods, *e.g.*, *Fisher Stoves Inc. v. All Nighter Stove Works, Inc.*, 626 F.2d 193, 195 (1st Cir. 1980) (two-tier design of woodstove functional because improving the operation of the stove in three respects).

The functionality defense, then, was developed to protect advances in functional design from being monopolized.[4] It is designed to encourage competition and the broadest dissemination of useful design features. The question posed is whether by protecting the "General Lee" symbols we are creating an eternal monopoly on the shape or form of some useful object, thereby limiting the sharing of utilitarian refinements in useful objects.

With the functionality defense thus defined it is obvious that the "General Lee" symbols—flag emblem and numbers in tandem with the color orange—are not the kind of "useful objects" that the functionality defense was designed to protect. Rather than representing an advance in the useful arts, the symbols merely function to enable consumers, especially children, to identify a toy car with a particular television series.

This conclusion, that only functions which represent development of useful features, and not functions which serve merely to identify, are considered in determining functionality, is reinforced by earlier as well as by our own recent case law. In *Moline Pressed Steel Co. v. Dayton Toy & Specialty Co.*, 30 F.2d 16 (6th Cir. 1929),

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[4] The doctrine is analogous to the exception in the Copyright Act denying copyrightability as to the "mechanical or utilitarian aspects" of works of artistic craftsmanship. 17 U.S.C. § 101 (1976); 37 C.F.R. § 202.10 (1983); *see Kieselstein-Cord v. Accessories by Pearl, Inc.*, 632 F.2d 989 (2d Cir. 1980); 1 M. Nimmer, *Copyright* § 2.08[B] at 2-87—2-96.4 (1983).

the court held that two toy manufacturers could each make identical toy dump trucks modeled after an actual truck, but that the one could not use the other's trade name of "Buddy-L" on the truck. It could use its own trade name "Sonny" which the court found neither in sound nor in appearance was "likely to be confused" with "Buddy-L." *Id.* at 18. Nor could the "Sonny" truck "use on its trucks any unique design or coloring, lacking functional utility, which has become identified with [the 'Buddy-L' truck]." *Id.* We have already referred to *Vibrant Sales, Inc. v. New Body Boutique, Inc.* (weight loss waistbelt design functional), which points out that "[t]he additional requirement that copied features must be nonfunctional if the copying is to come within the prohibition of § 43(a) reflects the concern that first-comers not be allowed to prevent the widespread use of useful but non-patentable features." 652 F.2d at 303. In *Dallas Cowboys Cheerleaders, Inc. v Pussycat Cinema, Ltd.*, 604 F.2d 200 (2d Cir. 1979), the court held that the design of the Dallas Cowboys cheerleaders' costume using "white boots, white shorts, blue blouse, and white star-studded vest and belt" "imparts a western flavor appropriate for a Texas cheerleading squad" but was "arbitrary" and worthy of trademark protection even though the uniform was otherwise functional. *Id.* at 203 n.4, 204. The court there held that "the fact that an item serves or performs a function does not mean that it may not at the same time be capable of indicating sponsorship or origin, particularly where the decorative aspects of the item are nonfunctional." *Id.* at 204. So, too, with the "General Lee." Its distinctive markings indicate origin and go to appearance and dress; they are arbitrary and nonfunctional.

Consumer Motivation

Gay Toys' second principal argument concerns the issue of secondary meaning. To prove a violation of the false designation of origin prohibition in § 43(a) of the Lanham Act protecting unregistered trademarks, it is first necessary to prove that the mark in question has acquired a second meaning to the consumer primarily as a mark identifying the product with a particular source. *E.g.*, *Vibrant Sales*, 652 F.2d at 303. Gay Toys claims that to show secondary meaning a trademark holder must show that consumers are motivated to buy the allegedly infringing goods in question because they believe the goods are sponsored or manufactured by a particular source identified by the trademark symbol in question. It was not proved that consumers of "General Lee" models care whether the goods are manufactured or sponsored by any single source, the district court found. Since Warner has not proved "consumer motivation," the argument runs, it has not shown "secondary meaning," and its infringement claim must fail.

We are referred to what is said to be "consumer motivation" language in a line of cases including *Crescent Tool Co. v. Kilborn & Bishop Co.*, 247 F. 299, 300 (2d Cir. 1917) ("whether the public is moved in any degree to buy the article because of its source"); *Blisscraft of Hollywood v. United Plastics Co.*, 294 F.2d 694, 697 (2d Cir. 1961) ("To establish a secondary meaning . . . it must be shown that . . . purchasers are moved to buy it because of its source."); *Hygienic Specialties Co. v. H. G. Salzman, Inc.*, 302 F.2d 614, 620 (2d Cir. 1962); *American Footwear Corp. v. General Footwear Co.*, 609 F.2d 655, 663 (2d Cir. 1979) ("The crucial question . . . always is whether the public is moved in any degree to buy an

article because of its source."), *cert. denied*, 445 U.S. 951 (1980).

In each of these cases, however, the plaintiff failed to establish source association in the general sense of associating the term or symbol used by the defendant with the plaintiff. *Crescent Tool*, 247 F. at 300; *Blisscraft*, 294 F.2d at 697; *Hygienic Specialties*, 302 F.2d at 620; *American Footwear*, 609 F.2d at 660, 662. Here there *was* proof of association of the "General Lee" toy car with the "Dukes of Hazzard" television series. Nor is there any doubt that consumers wanted the toy in part because they (or their children) identified the toy with the television series. This is sufficient even though Warner is not a manufacturer of toy cars; it is sufficient though there was no showing that consumers believed that the toy cars marketed by Gay Toys were sponsored or authorized by Warner.

In a case for all practical purposes identical to ours, involving the very "General Lee" and another imitator, the Seventh Circuit recently said:

> [T]his court has previously noted that to establish secondary meaning it is not necessary for the public to be aware of the name of the manufacturer which produces a product . . . .
>
> [A]s a matter of law the capacity of the PPC "Rebel" or the "General Lee" cars to indicate the "Dukes of Hazzard" television show establishes the existence of secondary meaning in this case inasmuch as the toy cars are associated with a single source—the television series sponsored by Warner Bros. This follows even though Warner Bros., Inc. is not a manufacturer of toy cars.

Processed Plastic Co. v. Warner Communications, Inc., 675 F.2d 852, 856 (7th Cir. 1982) (citations omitted).

What then of the consumer motivation language of the cases? Initially it should be noted that the language carries an ambiguous meaning. To say consumers are motivated to buy an article "because of its source" can mean either that, for example, customers buy it because they identify it with the television show, *or* that customers buy it because they believe the article is produced by or authorized by the television show makers. Most of the authority Gay Toys provides for its "consumer motivation" test, then, does not really demonstrate that the test has been applied in the restrictive manner Gay Toys urges upon us.

The "consumer motivation" language, moreover, may have some more specific application where there is a concern over the assertion of exclusive rights in the shape of useful objects, *see Hygienic Specialties*, 302 F.2d at 620 (dicta), or when the symbol in question generates a "generalized linkage" to a particular source, but the symbol's primary significance remains its independent aesthetic or utilitarian appeal.[5] *See, e.g., American Footwear*, 609 F.2d at 663.

The ultimate test for secondary meaning, however, as Judge Nies of the Court of Customs and Patent Appeals has pointed out, is simply whether the term, symbol or device identifies goods of "a *particular* source," in which case it is protectable. If it does not identify goods with a particular source, it is not protectable. *In re DC Comics, Inc.*, 689 F.2d at 1054 (concurring opinion). "[T]he reality," she adds, is that "the primary objective of purchasers

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[5] Since for a mark to acquire secondary meaning its *primary* significance to consumers must be its referential character, a mark that has some referential sense but whose primary purpose is independent of its source-identifying character has not acquired sufficient secondary meaning to warrant protection. *E.g., American Footwear*, 609 F.2d at 663.

is to obtain particular goods, not to seek out particular sources or producers, as such." *Id.* This is what "secondary meaning" means; the true inquiry is whether the primary function of a particular design is other than referential, leading to association in the public mind with no one or nothing, or, by virtue of its distinctiveness, it is designed to create an association with a single source. In making that inquiry, the actual motivation of purchasing consumers—whether they were motivated because of quality, source, feature, design, price, durability, prestige, or otherwise—is essentially irrelevant. *Id.* Different people, for example, buy Rolls Royce automobiles for different reasons including combinations of the above factors, but the distinctive overlapping "R's" symbol is nevertheless surely protectable. Irrespective of customers' motivations in making a purchase, they recognize and associate the symbol with the auto manufacturer.

The symbols on the "General Lee" just as clearly have a secondary meaning in the eyes of the consumer of the toy car. There was ample evidence—indeed Gay Toys' sales of its imitations are themselves proof—that the public did associate the "General Lee" with the "Dukes of Hazzard" television series. Its distinctive markings and color made it a "Dukes of Hazzard" car, or a toy depicting that car. It is *because* of that association, the identification of the toy car with its source, Warner's television series, that the toy car is bought by the public. That is enough.

Abandonment and Unclean Hands

The abandonment and unclean hands defenses advanced by Gay Toys can be dealt with more quickly. The unclean hands defense is based on Warner's cease and desist letter to Gay Toys threatening criminal prosecution

for copyright infringement, a claim not pressed in this suit. Warner did have copyright registration for the "Dukes of Hazzard" show, so that its claim would not be wholly baseless. In addition, as this court held in *Maatschappij Tot Exploitatie Van Rademaker's Koninklijke Cacao & Chocoladefadrieken v. Kosloff*, 45 F.2d 94, 96 (2d Cir. 1930), the defense of unclean hands applies only with respect to the right in suit; making a false trademark claim there did not bar plaintiff from an unfair competition claim.

Dismissal of the abandonment defense was also proper. Even if we accord Gay Toys the most favorable inference, it has not met the "high burden of proof" required to show abandonment through failure to police, at least in light of Warner's uncontroverted evidence of quality control standards which it enforced upon its licensees. *See United States Jaycees v. Philadelphia Jaycees*, 639 F.2d 134, 140 (3d Cir. 1981).

In view of our determination of the principal issues, it is unnecessary to pass on Warner's claims that Gay Toys has violated the New York law of unfair competition.

Judgment affirmed.

ATTACHMENT B

3RD CASE of Level 1 printed in FULL format.

TEMPO COMMUNICATIONS, INC., Plaintiff, v. COLUMBIAN ART WORKS, INC., Defendant.

No. 80 C 1709

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF ILLINOIS EASTERN DIVISION

Slip Opinion

September 28, 1983

OPINIONBY: GETZENDANNER

OPINION:
MEMORANDUM OPINION AND ORDER

SUSAN GETZENDANNER, District Judge:

This action under the Lanham Act is before the court on cros-motions for partial summary judgment. The primary issue presented by the motions is the sufficiency of the affirmative defense raised by defendant Columbian Art Works, Inc. (hereinafter "Columbian"). The court agrees with plaintiff Tempo Communications, Inc. (hereinafter "Tempo") that the affirmative defense is insufficient as as matter of law. The court therefore grants Tempo's motion in part, denies Columbian's motion, and strikes the affirmative defense.

Tempo markets a calendar, certain features of which it alleges are entitled to trademark protection. Tempo describes these features as trade dress. Tempo sues Columbian for marketing calendars which copy these features. Columbian's affirmative defense, the subject of this motion, is as follows:

By reason of Plaintiff's failure to renew certain copyright registrations in accordance with the copyright Act of 1909 in which such registrations covered alleged exclusive rights to the trade dress elements which are the subject of this action such trade dress elements lie in the public domain. Thus, Plaintiff is barred from extending its exclusive monopoly in the subject trade dress elements through the Federal Unfair Competition provisions of the Lanham Act, 15 U.S.C. § 1051 et seq.

Tempo argues that expired patents and copyright registrations do not bar Lanham Act actions, and the court agrees. The parties have cited many cases to the court, and the court has familiarized itself with them generally. The law, applying both to patents and to copyrights, is stated adequately in In re Mogen David Wine Corporation, 328 F.2d 925, 930 (C.C.P.A. 1964):

In our opinion, trademark rights, or rights under the law of unfair competition, which happen to continue beyond the expiration of a design patent, do not "extend" the patent monopoly. They exist independently of it, under different law and for different reasons. The termination of either has no legal effect on the continuance of the other. When the patent monopoly ends, it ends. The trademark rights do not extend it. We know of no provision of patent law, statutory or otherwise, that guarantees to anyone an absolute right to copy the subject matter of any expired patent. Patent expiration is nothing more than the cessation of the patentee's right to exclude held under the patent law.

Columbian attempts to distinguish Mogen David on the basis that in that case the applicant sought to register a bottle design as a trademark for wine, not as a trademark for bottles, while in this case Tempo asserts that its calendar design is a trademark for the calendars themselves. As Tempo points out, this precise argument was rejected unequivocally In re Honeywell, Inc., 497 F.2d 1344, 1346, 1349 (C.C.P.A.), cert. denied, 419 U.S. 1080 (1974). The court will note that the discussions in Mogen David and Honeywell are not tied to the particular facts present in those appeals; rather, those discussions describe a broad approach to understanding the coexistent bodies of federal law governing patents, copyrights, and trademarks. Further, the court believes that Mogen David and Honeywell accurately describe the prevailing law as it can be ascertained from the many other cases the parties have cited. Simply stated, the expiration of a copyright or a patent does not bar an action under the Lanham Act for trademark infringement.

The parties have devoted a certain amount of attention to the companion cases of Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 255 (1964), and Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964). These cases hold that the federal patent laws may preempt state laws respecting unfair competition, but they do not hold that the federal patent laws preempt other federal legislation. As was stated by another member of this court: "It is well established that the Sears-Compco doctrine does not restrict the scope of Section 43(a) of the Lanham Act. The Sears-Compco doctrine is a preemption doctrine based on the supremacy of federal law." Howw Mfg., Inc. v. Formac, Inc., 213 U.S.P.Q. 793, 796 (N.D. Ill. 1981) (Leighton, J.). Accord, e.g., Keene Corp. v. Paraflex Industries, Inc., 653 F.2d 822, 823 n.1 (3d Cir. 1981). The present case therefore is not governed by Spangler Candy Co. v. Crystal Pure Candy Co., 353 F.2d 641 (7th Cir. 1965), which recognized preemption of state law under Sears and Compco.

It is true that some concerns expressed in Sears and Compco are valid also with respect to federal legislation. Just as state laws conferring perpetual monoplies could undermine the constitutional language of securing exclusive rights to authors and inventors "for limited Times," Art. I, § 8, so Congress, conceivably, could circumvent that language by granting perpetual patents and copyrights under the guise of some other form of trade regulation. It is clear, however, that perpetual trademark protection, as it has been granted and enforced in the past, does not amount to sub-rosa perpetual patent or copyright protection. Further, and more to the point of Columbian's affirmative defense, the additional fact of an expired patent or copyright does not convert perpetual trademark protection into perpetual patent or copyright protection. Thus, nothing in the Constitution, or in Sears, or Compco, directs that Tempo's trademark action, if otherwise valid, should be barred by the expired copyrights. The court notes that the Court of Appeals for the Federal Circuit recently made explicit mention of Art. I, § 8, Sears, and Compco, in reaffirming the vitality of Mogen David and Honeywell. In re Teledyne Industries, Inc., 696 F.2d 968, 971 n.4 (Fed. Cir. 1982).

The court holds, therefore, that Columbian's affirmative defense is insufficient as a matter of law. Proof of the allegations therein will not bar Tempo's claim. It is important that the court also mention, in part, what it does not hold. The court does not hold that Tempo's calendar features are entitled to trademark protection or that any other element of Tempo's claim is valid. The court does not hold that evidence of the unexpired patents necessarily will be inadmissible at trial. The court also declines to embrace the abstract statements of law proposed by the parties as partial summary

judgments. The parties' proposed statements in some instances are accurate, and in others either are inaccurate or are tautological. In most instances, these statements are abstract propositions of law and it is improper to enter them as partial summary judgment orders.

Accordingly, plaintiff's motion for partial summary judgment is granted in part and denied in part. Defendant's motion for partial summary judgment is denied. Defendant's affirmative defense is stricken as insufficient

It is so ordered.

ATTACHMENT C

UNIVERSAL CITY STUDIOS, INC. and MERCHANDISING CORPORATION OF AMERICA, INC., Plaintiff, vs. MUELLER CHEMICAL COMPANY, INC., DORTHEA JOHNSON, and WESLEY K. JOHNSON, d/b/a Varsity Sport Shop, Defendants.

No. 81 C 5737

UNITED STATES DISTRICT COURT NORTHERN DISTRICT OF ILLINOIS EASTERN DIVISION

Slip Opinion

November 24, 1982

OPINIONBY: LEIGHTON

OPINION:

Before the Honorable George N. Leighton United States District Judge

Findings of Fact and Conclusions of Law

A. Introduction

This action arises out of the use by defendants Mueller Chemical Company, Inc. (Mueller), Dorothea Johnson and Wesley K. Johnson, d/b/a Varsity Sport Shop (Varsity), of the term "Jaws" to denote tape cutters sold by them. It is based on trademark infringement, false designation of origin, description or representation of defendants' goods, unfair and deceptive trade practics, injury to business reputation and dilution, misappropriation, and unfair competition under the common law, Title 15 U.S.C. §§ 1114(a) and 1125(a) and Ill. Rev. Stat. ch. 140, § 22 and ch. 121 1/2, §§ 311-318 (1979). The cause is presently before the court on the motion of plaintiffs, Universal City Studios, Inc. (Universal) and Merchandising Corporation of America, Inc. (Merchandising), pursuant to Rule 65(a), Fed. R. Civ. P., for a preliminary injunction enjoining the defendants' use of the "Jaws" trademark. The parties having presented both testimonial and documentary evidence, the court makes the following findings of fact and conclusions of law.

B. Findings of Fact

The following facts have been stipulated to by the parties:

1. Plaintiff Universal is a Delaware corporation, having its principal place of business at 100 Universal City Plaza, Universal City, California. Universal is a producer and distributor of motion pictures for theatrical and television display. Plaintiff Merchandising is a California corporation also having its principal place of business at 100 Universal City Plaza, Universal City, California. Merchandising is the licensing arm of Universal and licenses others to use or merchandise the characters, symbols, names and other proprietary aspects of Universal's motion pictures. Merchandising also controls the nature and quality of the goods with which the licensed rights are used and the manner of use of the rights. Both Universal and Merchandising are subsidiaries of MCA, Inc., a Delaware corporation located and doing business at 100 Universal City Plaza, Universal City, California.

2. Defendant Mueller is a Wisconsin corporation doing business in this district and located at Highway FF, Prairie du Sac, Wisconsin 53578. Mueller is engaged in the business of manufacturing and selling athletic supplies and sporting goods. Defendants Dorothea Johnson and Wesley K. Johnson reside at 5019 North Mozart, Chicago, Illinois 60625 and do business in this district as Varsity Sport Shop, located at 5139 North Damen Avenue, Chicago, Illinois 60625. Varsity is engaged in the business of selling sporting goods at retail.

3. In early 1973, Universal acquired from author Peter Benchley the motion picture, merchandising and allied rights in and to a book entitled Jaws, including rights in and to the title, characters and theme thereof, which was subsequently published in the United States. This book is a fictional work about a shark which terrorizes a small town. Universal was granted the right to manufacture and sell and to license others to manufacture and sell, merchandise and/or services based upon the book and motion picture photoplays derived therefrom.

4. On or about June 20, 1975 Universal released the motion picture Jaws for theatrical display throughout the United States. Since that time, the Jaws motion picture has been re-released and displayed throughout the United States. More than 140 million people have seen the Jaws motion picture in theatres worldwide. On November 4, 1979, Jaws was displayed by the ABC television network during prime time and was viewed by about 70 million people. The motion picture Jaws was most recently displayed on television on October 5, 1980, when it was viewed by an estimated 30 million people. Since 1973 and continuing to the present, Universal has used the term Jaws as a service mark for entertainment services and as a trademark on various merchandise.

5. On June 16, 1978, Universal released a sequel to the motion picture Jaws entitled Jaws 2. Since that time, the movie has been displayed throughout the United States and was re-released in February 1980. The Jaws 2 motion picture has been viewed by more than 60 million people worldwide. Shortly before Jaws 2 was first released for theatrical display, the movie Jaws was re-released. The motion picture Jaws 2 was displayed on network television on February 18, 1981, and was viewed by 32.5 million people.

6. Plaintiffs have spent in excess of $15 million on advertising the two motion pictures. The Jaws motion picture has earned revenues from theatrical and television display in excess of $200 million to date. It ranks to date among the top five most successful and popular motion pictures in history. The Jaws 2 motion picture ranks in the top 20 motion pictures, having earned revenues from theatrical display in excess of $80 million.

7. The Jaws book has sold in excess of 9.4 million copies of the hardbound and paperback versions. A book entitled Jaws 2, which is a novelization of the screenplay from the Jaws 2 motion picture, has sold in excess of 2 million copies. Two books entitled Jaws Log and Jaws Log 2, which are descriptions of how the movies were made, have sold in excess of 2 million and 35,000 copies respectively.

8. From a time prior to the release of the motion picture Jaws, Merchandising has negotiated and granted approximately 47 licenses permitting others, in return for royalties, to use the mark Jaws on and in connection with a wide variety of merchandise. These licensed items have produced approximately $35 million in retail sales and $2.5 million in royalties. The Jaws game is

of the most successful games of Ideal Toy Company, plaintiffs' licensee. Approximately 3 million units of the game have been sold. Approximately 295,000 record albums entitled Jaws and containing the soundtrack from the Jaws motion picture have been sold. In the fall of 1979, the United States distributor of Datsun automobiles entered into a license with Merchandising to purchase and distribute 5,000 Jaws posters as a promotional tie-in between the sale of Datsun automobiles and the telecast of the Jaws motion picture on television on November 4, 1979.

9. Universal and Merchandising exert quality control over their licensees. Product manufacturers licensed by Merchandising submit their proposed lettering style and product design to plaintiffs before production; during the term of the license they regularly submit representative samples of the merchandise for plaintiffs' approval. The lettering style for the merchandise is consistent with the lettering style used on the movies and books and is in capital, block letters. Not all prospective licensees are accepted and products to be licensed must be of the type which, in Universal's and Merchandising's opinion, would not be harmful to their reputation or dangerous to consumers. Universal owns 12 United States Trademark and Service Mark Registrations for Jaws and Jaws 2 with a logo covering entertainment services and a variety of merchandise, numbered as follows: 1,039,787; 1,073,567; 1,073,650; 1,073,664; 1,075,059; 1,073,59; 1,073,665; 1,073,671; 1,075,068; 1,100,741; 1,096,290; and 1,103,605.

10. Universal and Merchandising have in the past sought to prevent unauthorized use of Jaws by non-licensed parties. In Universal Studios, Inc., et al. v. Montgomery Ward & Co., Inc., et al., No. 80 C 68 (N.D. Ill. 1980), the defendants were preliminarily enjoined from using the terms "Jaws One", "Jaws Two" and "Jaws Power" in connection with its sale of garbage disposers. On final disposition, the defendant Ward was permanently enjoined from using the above marks without consent of Universal and Merchandising on its garbage disposer units or any other product. In Universal City Studios, Inc., et al. v. Sport Mates, Inc., et al., No. 81 C 92 (N.D. Ill. 1981), the defendants were permanently enjoined from using the mark "Jaws" or the design of a shark in connection with the sale of carriers for skis, ski poles and ski covers without the consent of Universal and Merchandising.

The following factual findings have been made by the court, based on the evidence presented:

11. In early 1978, defendant Mueller began using the term "Jaws" in connection with its sale of a small, hand-held tool used for cutting through multiple layers of adhesive tape used in the treatment and prevention of injuries. This sport tape cutter tool resembles a shark. It contains a removable blade portion to permit the blade to be changed. The blade is thin metal and razor sharp. The name "Jaws" appears on the cutter, the removable cutter blade assembly, the box for the cutter, and advertising material. Before adopting the term "Jaws", Mueller sold other tape cutters under different names and even today sells a tape cutting scissors under another name.

12. At the time defendant Mueller adopted the term "Jaws", it had full knowledge of plaintiffs' Jaws movies, their trademark and service mark "Jaws" and at least some of their registrations therefor. At the hearing conducted by this court on December 17, 1981, Curt Mueller, president of defendant Mueller Chemical Company, testified that he knew of plaintiffs' movie Jaws when he adopted the mark in 1979 for his tape cutter. The defendant was also aware of

the lettering style used by plaintiffs for their mark "Jaws" when it adopted a block style of lettering for its "Jaws" tape cutter almost identical to the lettering style used by plaintiffs. At about the same time that Mueller adopted "Jaws" for its product, the first Jaws movie was being re-released and the impending release of Jaws 2 was announced.

13. Mueller uses the symbol "TM" in association with the name "Jaws" to indicate that it is using the term in a trademark sense. An application to register the term "Jaws" for an athletic tape cutter was filed by Mueller in the United States Patent and Trademark Office on April 10, 1978, under Serial No. 163,885. This application was published for opposition on July 21, 1981. Registration No. 1,172,910 was issued to defendant Mueller on October 13, 1981.

14. Plaintiffs first became aware of defendant Mueller's use of the term "Jaws" in July 1981 when Mueller's trademark application was published for opposition in the U.S. Patent and Trademark Office Official Gazette. Plaintiffs made a good faith attempt to oppose the application by timely filing a request for a 60-day extension of time to oppose and thereafter timely filing a notice of opposition, but the papers were misplaced or lost in the mails or at the U.S. Patent and Trademark Office, and a registration number was issued to defendant Mueller, without opposition. While the Patent and Trademark Office refused to recall the registration and set up an opposition, plaintiffs were allowed to file a petition for cancellation of defendant's registration for "Jaws", which they did on December 17, 1981. The cancellation proceeding (No. 13,176) is pending.

16. Plaintiffs promptly notified defendant Mueller of its alleged infringement and unfair competition in early August 1981. When Mueller refused to stop the use of the "Jaws" name on their tape cutters, plaintiffs brought this action on October 13, 1981.

16. The wide dissemination of the Jaws and Jaws 2 books and movies, the large number of persons who have been exposed to the two books and two movies, and the wide dissemination of products licensed under the mark "Jaws", have established a strong, widely recognized secondary meaning which is associated with plaintiffs' books and motion pictures. Through this secondary meaning, "Jaws" and "Jaws 2" have been established as merchandising properties; the use of the names "Jaws" and "Jaws 2" creates a consumer demand for a product or service with which they are associated.

17. Plaintiffs' large monetary expenditures and extensive promotion efforts have served to generate a valuable secondary meaning for the "Jaws" trademark.

18. This secondary meaning is separate and distinct from the many other general uses of the word "jaws". The existence of those other users of the term "jaws" did not prevent the plaintiffs from acquiring their own individualized and peculiar secondary meaning for that word, which occurred here.

19. In its past business practices, particularly with respect to the "Quench" products, defendant Mueller has evidenced a knowledge and understanding of merchandising techniques which rely on the exploitation of a famous or recognizable name or mark. Mueller was fully aware of the immense popularity and fame of the Jaws movies and merchandising properties and the great promotional value of associating its sports tape cutter with plaintiffs' movies and merchandising properties by using the term "Jaws" on the tape cutter. In

adopting the term "Jaws", Mueller intended to capitalize on plaintiffs' secondary meaning and to exploit plaintiffs' goodwill and the success of plaintiffs' merchandising properties.

20. Defendant Mueller's intent to capitalize on the commercial value of plaintiffs' mark is further revealed by its actions in copying the product of its competitor, Becton, Dickinson & Company. Curt Mueller, president of defendant Mueller Chemical Company, admitted that he knew of plaintiffs' movie Jaws when he adopted the mark in 1979 for his tape cutter, "I knew there was a movie about some mammal swimming around in the water." He also admitted that his company's tape cutter originated from a tape cutter marketed by Becton, Dickinson & Company since 1973 under the name "Shark". Mueller's tape cutter is the same design as Becton, Dickinsons' cutter, and there is no doubt that Mueller had the famous shark of plaintiffs' Jaws movies in mind when it chose the term "Jaws". Arthur E. Armstrong, president of Kay Laboratories, Inc., the manufacturer of Mueller's tape cutter, admitted that the Becton-Dickinson tape cutter was used to make the Mueller "Jaws" cutter, as well as another cutter marketed by the manufacturer under the name "Kwik-Kut". Mr. Armstrong also testified that he viewed the Jaws movie at about the time it was released. By calling its product "Jaws" with full knowledge that the product had been previously spelled "Shark" and resembled a shark and using the same typeface as that used by plaintiffs, Mueller intended to create a connection with and capitalize on plaintiffs' popular movies Jaws and Jaws 2 and their famous shark "Jaws". This is strong evidence of likelihood of confusion and reveals Mueller's deliberate and willful disregard of plaintiffs' rights in the mark "Jaws". The testimony of Curt Mueller, the president of defendant Mueller Chemical Company, that the name "Jaws" referred to the jaws of the tape cutter is simply not credible under the circumstances.

21. Mueller's "Jaws" product is closely related to the goods and services to which plaintiffs' "Jaws" mark has been applied. Mueller's sports tape cutter is used for sports and sporting events and is sold with other products, including chewing gum, used for such purposes. Sports are a form of entertainment, as are many of the goods and services which plaintiffs have licensed to carry the "Jaws" name. Furthermore, many products marketed by Mueller along with its sports tape cutter are the types of products which plaintiffs have licensed or would consider licensing under the "Jaws" mark. The close relationship between Mueller's "Jaws" product and the products on which plaintiffs and their licensees use the mark "Jaws", coupled with the strong and vivid secondary meaning and public recognition of plaintiffs' "Jaws" mark and the wide breadth of services and goods in connection with which the mark has been used by plaintiffs and their licensees, establishes that confusion is likely to occur if defendants are permitted to continue use of "Jaws".

22. Defendant Mueller claims that the primary market for the sale of its "Jaws" tape cutter is not through retail outlets, but through salesmen who sell to athletic organizations, such as high school and college athletic departments. However, as shown by the press release marked as PX 90, defendant Mueller markets the product at the retail level through "sport stores nation-wide". Sale of Mueller's "Jaws" tape cutter at the retail level throughout the country buttresses plaintiffs' showing of a likelihood of confusion since marketing of the tape cutter is not limited to any particular class of purchasers, as defendant contends. The press release marked as PX 90 also shows that defendant Mueller does not always use its mark "Mueller" in direct association with the name "Jaws", as defendant contends.

23. Plaintiffs' vice-president, Steve Adler, testified that because Mueller's "Jaws" tape cutter contained a sharp removable blade, it was considered by plaintiffs to be dangerous and unsuitable for licensing under the "Jaws" mark. He further testified that dangerous products bearing plaintiffs' mark "Jaws" could expose plaintiffs' reputation to substantial damage if someone were injured by the cutters.

24. Defendants have made no showing that they would suffer any irreparable harm from issuance of a preliminary injunction comparable to the irreparable harm plaintiffs would suffer if the requested preliminary injunction is not granted. Curt Mueller testified that the "Jaws" tape cutter is not a significant item with regard to defendant Mueller's overall profit since the annual net profit from the sale of the tape cutter is only about $1,000, which represents only about one-fourtieth of Mueller's overall profit. Moreover, defendant Mueller could obtain the same tape cutter from its supplier Kay Laboratories under a different name or with no name on the cutter, and changing the name of the tape cutter from "Jaws" to another name would only cost defendant Mueller about $500. Thus, granting the requested preliminary injunction would not significantly interrupt defendant Mueller's marketing of the "Jaws" type tape cutter.

25. To the extent that any of the foregoing findings of fact are deemed to be conclusions of law, they are hereby adopted as conclusions of law.

C. Conclusions of Law

On the above and foregoing findings of fact, the court now makes the following conclusions of law:

1. The court has jurisdiction over the subject matter of this action since it arises under the trademark statutes of the United States. Title 15 U.S.C. §§ 1114(1), 1121, and 1125(a); Title 28 U.S.C. § 1338.

2. To establish the right to a preliminary injunction, a party must show (a) at least a reasonable likelihood of success on the merits; (b) the danger of irreparable harm and lack of an adequate remedy at law; and (c) a balance of hardships in its favor. Milsen Company v. Southland Corporation, 454 F.2d 363, 367 (7th Cir. 1971); Helene Curtis Industries, Inc. v. Church & Dwight Co., Inc., 560 F.2d 1325, 1330 (7th Cir. 1977), cert. denied, 434 U.S. 1070 (1977); General Foods Corp. v. Borden, Inc., 191 U.S.P.Q. 674, 679-80 (N.D. Ill. 1976).

3. Under the trademark infringement statute, 15 U.S.C. § 1114(1), the trademark owner may show a likelihood of success on the merits by establishing ownership of a valid trademark registration and likelihood of confusion due to defendants' conduct. Square D. Co. v. Sorenson, 224 F.2d 61 (7th Cir. 1955) (use of mark likely to cause confusion in market place constitutes violation of section); Universal, Inc. v. Kinney Shoe Corp., 453 F.Supp. 1352 (S.D. N.Y. 1978) (before issue of trademark infringement can be resolved, it is ordinarily necessary to determine validity of trademark sought to be protected in first instance).

4. Universal's federal trademark registrations are now prima facie evidence of the validity of the registrations, its ownership of the mark, and of its exclusive right to use of the mark in commerce in connection with the goods or services specified in the certificates. Title 15 U.S.C. § 1057(b).

Universal's aforesaid registrations are valid and owned by Universal.

5. Marks which are highly distinctive and have strong secondary meaning are likely to be associated in the public mind with a wide breadth of products and services and are subject to being diluted when used by another on unrelated products or services. James Burroughs, Ltd. v. Sign of the Beefeater, Inc., 572 F.2d 574, 577 (7th Cir. 1978); Polaroid Corp. v. Polaraid, Inc., 319 F.2d 830, 833-35 (7th Cir. 1963); Universal City Studios, Inc. v. Montgomery Ward & Co., Inc., 207 U.S.P.Q. 852, 856 (N.D. Ill. 1980). It is not necessary for the public to be aware of the name of the manufacturer which produces the product; rather, it is sufficient if the public assumes that the product comes from a single, though anonymous, source. Processed Plastic Co. v. Warner Communications, Inc., 675 F.2d 852, 856 (7th Cir. 1982); Union Carbide Corp. v. Ever-Ready, Inc., 531 F.2d 366 (7th Cir. 1982); cert. denied, 429 U.S. 830 (1976).

6. Secondary meaning may be established by evidence concerning the length and manner of use of the mark, the nature, amount and geographic scope of advertising and promotional efforts involving the mark and the volume of sales of goods or of revenues recieved from services in connection with which the mark is used. Union Carbide Corp., 531 F.2d at 380-81; Universal City Studios, Inc. v. Montgomery Ward & Co., Inc., 207 U.S.P.Q. at 857; Volkswagenerk Aktiengesellschaft v. Rickard, 492 F.2d 474, 478 (5th Cir. 1974).

7. Whether a trademark has become distinctive and acquired secondary meaning is a question of fact. Volkswagenwerk Aktiengesellschaft v. Rickard, 492 F.2d at 477-78; Education Development Corp. v. Economy Co., 562 F.2d 26, 30 (10th Cir. 1977).

8. The court concludes, based upon the evidence presented concerning the length and manner of use of the marks "Jaws" and "Jaws 2", the extensive widespread promotion and advertising done in association with the marks, the substantial volume of sales of licensed goods and services under the marks, the volume of people who have seen the movies Jaws and Jaws 2 in theaters and on television and the immense popularity of the movies, Mueller's intent to capitalize on the public recognition and fame of plaintiffs' movies and "Jaws" mark, and the court's own observance and experience, that the marks "Jaws" and "Jaws 2" have strong, widely recognized, and vivid secondary meaning and, therefore, are entitled to a broad scope of protection. Processed Plastic Co., 675 F.2d at 857 n.7; Universal City Studios, Inc. v. Montgomery Ward & Co., Inc., 207 U.S.P.Q. at 856-57.

9. For preliminary injunctive relief under the Lanham Act, 15 U.S.C. §§ 1114(1) and 1125(a), it is not necessary for plaintiffs to show actual confusion, but only that the defendants' activities are likely to cause confusion or deceive the public. Tisch Hotels, Inc. v. Americana Inn, Inc., 350 F.2d 609, 611 (7th Cir. 1965); General Foods Corp. v. Borden, Inc., 191 U.S.P.Q. 674, 680 (N.D. Ill. 1976); Rich v. RCA Corp., 390 F.Supp. 530-531 (S.D. N.Y. 1975); Tefal, S.A. v. Products Interational Co., 186 U.S.P.Q. 545, 548 (D. N.J. 1975), aff'd, 529 F.2d 495 (3d Cir. 1976).

10. The "likelihood of confusion" test requires only confusion as to approval, association or sponsorship. The public need not believe that the people who made the Jaws movies also make the tape cutter involved here. The public need only believe there is some connection or association with or

approval by the producer of the movie. Boston Professional Hockey Association, Inc. v. Dallas Cap & Emblem Mfg., Inc., 510 F.2d 1004, 1012 (5th Cir. 1975), cert. denied, 423 U.S. 868 (1975); Dallas Cowboys Cheerleaders, Inc. v. Pussycat Cinema, Ltd., 604 F.2d 200, 204-05 (2d Cir. 1979); D C Comics, Inc. v. Powers, 465 F.Supp. 843, 848 (S.D. N.Y. 1978); Universal City Studios, Inc. v. Montgomery Ward & Co., Inc., 207 U.S.P.Q. at 857.

11. Competition between the parties is not necessary for there to be a likelihood of confusion. The absence of direct competition is no obstacle to a finding of trademark infringement or unfair competition where confusion is likely as to source, association or sponsorship. James Burrough, Ltd., 572 F.2d at 577; Polaroid Corp. v. Polaraid, Inc., 319 F.2d at 834-35.

12.The court's finding that Mueller adopted the term "Jaws" with an intent to capitalize on the plaintiffs' mark permits the court to draw the strong inference of likelihood of confusion, "because the adoption itself indicates that defendants expected that likelihood to their profit." Tisch Hotels, Inc., 350 F.2d at 613. Also, see, Northam Warren Corp. v. Universal Cosmetic Co., 18 F.2d 774, 775 (7th Cir. 1927); Fleischmann Distilling Corp. v. Maier Brewing Co., 314 F.2d 149, 158 (9th Cir.), cert. denied, 374 U.S. 830 (1963); HMH Publishing Co., Inc. v. Brincat, 504 F.2d 713, 720 (9th Cir. 1974); D C Comics, Inc., 465 F.Supp. at 848. Thus, the court concludes that there is a likelihood of confusion and that plaintiffs are likely to succeed at trial in proving trademark infringement.

13. Plaintiffs are also likely to succeed at trial under their claim for misappropriation of merchandising properties. Plaintiffs' marks "Jaws" and "Jaws 2" are such properties because they create consumer demand for products with which they are associated. Grimes and Battersby, The Protection of Merchandising Properties, 69 Trademark Reporter, 431 (1979). Here, likelihood of confusion is not required. Under the laws of Illinois, one may not use the mark of another to obtain a "free ride" on the latter's efforts to promote that mark. Universal City Studios, Inc. v. Montgomery Ward & Co., Inc., 207 U.S.P.Q. at 858; National Football League Properties, Inc. v. Consumer Enterprises, Inc., 26 Ill.App.3d 814, 185 U.S.P.Q. 550, cert. denied, 423 U.S. 1018 (1975); National Football League Properties, Inc. v. Dallas Cap & Emblem Mfg. Inc., 26 Ill.App.3d 820, 185 U.S.P.Q. 554 (1st Dist. 1975). This is based on the law's reluctance to permit unjust enrichment or to permit a person "to reap where (one) has not sown." International News Services v. Associated Press, 248 U.S. 215, 239 (1918). Accord, Haelan Laboratories, Inc. v. Topps Chewing Gum, Inc., 202 F.2d 866, 868 (2d Cir.), cert. denied, 346 U.S. 816 (1953); Zacchini v. Scripps-Howard Broadcasting Co., 433 U.S. 562, 577 (1977); D C Comics, Inc. v. Powers, 465 F.Supp. 843, 849 (S.D. N.Y. 1978). As recognized by the Supreme Court: "If another poaches upon the commercial magnetism of the symbol he has created, the owner can obtain legal redress." Mishawaka Rubber & Woolen Mfg. Co. v. S. S. Kresge Co., 316 U.S. 203, 205 (1942).

14. Since the marks "Jaws" and "Jaws 2" have strong secondary meaning and public recognition, they are likely to create a consumer demand and have created a consmer demand in connection with a great variety of products and services. Mueller's adoption of "Jaws" was designed to take advantage of this public recognition for its own benefit by creating a consumer demand for its tape cutter ab initio and virtually without any effort on its part. See Chemical Corporation of America v. Anheuser-Busch, Inc., 306 F.2d 433, 437 (5th Cir. 1962), cert. denied, 372 U.S. 965 (1963).

15. Plaintiffs are also likely to succeed on the merits at trial on their dilution claim. Under the Illinois Anti-Dilution Statute, Ill. Rev. Stat. ch. 140 § 22 (1979), the owner of a distinctive trademark is entitled to protection against dilution of the distinctive quality of its trademark through use by another. Neither competition between the parties nor likelihood of confusion as to the source of the goods is required. Furthermore, it is not necessary that the Trademark be a coined or invented work to be entitled to protection against dilution of the distinctive quality of the mark so long as the owner of the mark can show that the mark has come to be identified with it and its products or services. Universal City Studios, Inc. v. Montgomery Ward & Co., Inc., 207 U.S.P.Q. at 858; Associates for Oral Surgery, Ltd. v. Associates for Oral and Maxillofacial Surgery, Ltd., 39 Ill.App.3d 73, 78 (1st Dist. 1976). The defendants need not intend to "trade off" on or benefit from the distinctive mark. Defendants' use of "Jaws" constitutes a dilution of plaintiffs' mark "Jaws". Polaroid Corp. v. Polaraid, Inc., 319 F.2d 830, 836 (7th Cir. 1963).

16. In this case, the plaintiffs' business, and particularly Merchandising's business, is based upon the ability to interest and liecense others in using the marks "Jaws" and "Jaws 2" on goods and services. Unlicensed use by others, such as defendants here, not only dilutes the distinctiveness of the mark "Jaws" as a symbol to consumers of plaintiffs' approval and quality control, but it also threatens plaintiffs' ability to acquire licenses. Unless the defendants are restrained, the door is open for others to do the same thing and further dilute the value of plaintiffs' mark. Universal City Studios, Inc. v. Montgomery Ward & Co., Inc., 207 U.S.P.Q. at 858-59. As pointed out by the court in Polaroid Corp. v. Polaraid, Inc., 319 F.2d at 836:

> (D)ilution is an infection which, if allowed to spread, will inevitably destroy the advertising value of the mark.
>
> Callman, The Law of Unfair Competition and Trademarks, 2d Ed. (1950) at p. 1643.

17. That plaintiffs do not actually produce the various merchandise in connection with which the mark "Jaws" is used, but license others to use the mark, does not in any way prevent plaintiffs from obtaining the relief they seek here. Warner Bros., Inc. v. Gay Toys, Inc., 658 F.2d 76, 79 (2d Cir. 1981). Plaintiffs have a substantial financial interest at stake and were the first to use the mark "Jaws".If the requested preliminary injunction is denied, plaintiffs stand to lose a great deal and their licensing program under the "Jaws" mark will lose much of the confidence reposed in it by their licensees.

18. Mueller's registration of the mark "Jaws" does not give defendants an absolute and irrebuttable right to use the mark. Although the registration may have been prima facie evidence of defendants' right to use the mark, plaintiffs have rebutted any prima facie case that might have been presented by Mueller's registratio by showing that their rights to the mark "Jaws" are superior to Mueller. Numerous courts have enjoined a party's use of a trademark where another had superior rights in the mark even though the party owned a federal registration for the mark. See, e.g., Valmor Products Co. v. Standard Products Corporation, 464 F.2d 200 (1st Cir. 1972); Stern Apparel Corporation v. Raingard, Inc., 87 F.Supp. 621 (S.D. N.Y. 1949); Cuban Cigar Brands, N.V. v. Upmann International, Inc., 457 F.Supp. 1090 (S.D. N.Y. 1978). Cf. Tuvache, Inc. v. Emilio Pucci Perfumes International, Inc., 152 U.S.P.Q. 574, 575 (S.D. N.Y. 1967).

19. Plaintiffs have also shown that they made a good faith effort to oppose Mueller's registration by filing a timely request to extend the time to file an opposition to Mueller's application to register "Jaws" as a trademark and thereafter by filing a Notice of Opposition. Thus, plaintiffs have raised a question whether Mueller's registration was issued in error. An improperly issued registration may be cancelled by the Patent and Trademark Office either upon a properly filed petition by plaintiffs or upon direction of this court. 15 U.S.C. §§ 1119, 1063 and 1064. See WGBH Educational Foundation, Inc. v. Penthouse International, Ltd., 453 F.Supp. 1347 (S.D. N.Y. 1978), aff'd, 548 F.2d 610 (2d Cir. 1979). In fact, plaintiffs have filed a petition to cancel Mueller's registration and the cancellation proceeding is pending. Thus, there has been no final determination by the Patent and Trademark Office regarding the validity of Mueller's registration. Mueller's trademark registration for "Jaws" provides no defense against plaintiffs' claims for relief.

20. There are several kinds of harm that plaintiffs are likely to suffer which are not likely to be redressed by an award of damages upon trial of the case. First, appropriation of plaintiffs' goodwill and injury to their business reputation resulting from defendants' adoption of the mark "Jaws" cannot be adequately compensated in money damages. Omega Importing Corp. v. Petri-Kine Camera Co., Inc., 451 F.2d 1190, 1195 (2d Cir. 1971); Fotomat Corp. v. Photo Drive-Thru, Inc., 425 F.Supp. 693, 711 (D. N.J. 1977); Tefal, S.A., 186 U.S.P.Q. at 548 (D. N.J. 1975), aff'd, 529 F.2d 495 (3d Cir. 1976); Fra S.A. v. Surg-O-Flex of America, Inc., 415 F.Supp. 418, 421 (S.D. N.Y. 1975). Second, plaintiffs' lack of control over the nature and quality of services and products which are likely to be associated with plaintiffs' mark, reputation and goodwill further constitutes irreparable injury. Processed Plastic Co., 675 F.2d at 858 (7th Cir. 1982); Franklin Mint, Inc. v. Franklin Mint, Ltd., 331 F.Supp. 827, 830 (E.D. Pa. 1971); Fotomat Corp., 425 F.Supp. at 711; Chips 'N Twigs, Inc. v. Chip-Chip, Ltd., 414 F.Supp. 1003, 1018 (E.D. Pa. 1976). Third, it would be impossible to measure the damages attributable to the dilution of plaintiffs' mark by its use by defendants. Fourth, that defendants' conduct jeopardizes and threatens to destroy plaintiffs' licensing program which has been built at great expense and effort constitutes irreparable injury. Wyatt Earp Enterprises, Inc. v. Sackman, Inc., 157 F.Supp. 621, 626 (S.D. N.Y. 1958). And finally, the damages to plaintiffs by reason of not having licensed a tape cutter of its own choosing is unmeasurable and speculative at this juncture.

21. The balance of hardships favors plaintiffs. The court must look at the interest of defendants and the relavative detriment to the parties which would be experienced as a result of the issuance of a preliminary injunction. Here, the likelihood of defendants prevailing on the merits in the case is so slight that defendants' right to use the term "Jaws" is entitled to little weight in relation to the undeniable right of plaintiffs to their mark "Jaws" and the likelihood that plaintiffs' damages are unmeasurable. The court in Colgate-Palmolive Co. v. North American Chemical Corp., 238 F.Supp. 81, 87 (S.D. N.Y. 1964), stated in this regard:

> (T)he courts will not shy away from issuing such (preliminary injunctive) relief where to do so would be to aid a second comer who has sought to trade upn the efforts and good will of the first comer. As the Court of Appeals for this Circuit expressed the point thirty years ago: "Advantages built upon a deliberately plagiarized make-up do not seem to us to give the borrower any standing to complain that his vested interests will be disturbed." My-T Fine Corp. v. Samuels, 69 F.2d 76, 78 (2d Cir. 1934).

22. To invoke the doctrine of laches, defendants must show, inter alia, that plaintiffs had knowledge of defendants' use of the mark "Jaws". Valmore Products Co. v. Standard Products Corp., 464 F.2d 200, 204 (1st Cir. 1972); Cuban Cigar Brands, N.V. v. Upmann International, Inc., 457 F.Supp. 1090, 1096 (S.D. N.Y. 1978), aff'd, 607 F.2d 995 (2d Cir. 1979). Defendants have failed to show that plaintiffs had actual knowlege of defendants' use of "Jaws" prior to the summer of 1981. But, even assuming plaintiffs knew of defendants' "Jaws" tape cutter in August 1979, laches has not been established. Delay is only one among several factors to consider. There is no general rule that irreparable injury cannot exist if there is some delay in filing a motion for a preliminary injunction. Ideal Industries, Inc. v. Gardner Bender, Inc., 612 F.2d 1018, 1025 (7th Cir. 1979); cert. denied, 447 U.S. 924 (1980). See Helene Curtis Industries, 560 F.2d at 1334; My-T Fine Corporation v. Samuels, 69 F.2d 76, 77-78 (2d Cir. 1934).

23. The mere passage of time does not constitute laches. To establish laches defendant must show that the plaintiff delayed in filing its motion for a preliminary injunction, that the delay was inexcusable, that defendant has relied on the delay and has made a substantial change of its position so as to be prejudiced. Merely assuming the calculated risk that the plaintiff will not take action does not constitute reliance. Ideal Industries, Inc. v. Gardner Bender, Inc., 612 F.2d 1018, 1025 (7th Cir. 1979), cert. denied, 447 U.S. (24 (1980); Helene Curtis Industries, 560 F.2d at 1334; Tisch Hotels, Inc., 350 F.2d at 614-15; Independent Nail & Packing Co., Inc. v. Stronghold Screw Products, Inc., 205 F.2d 921, 927 (7th Cir. 1953), cert. denied, 346 U.S. 886 (1953); James Burrough, Ltd., 572 F.2d at 578. The court in Armstrong Cork Co. v. Armstrong Plastic Covers Co., 434 F.Supp. 860, 872 (E.D. Mo. 1977) stated:

> Defendants must show that they relied upon plaintiff's knowledge or notice of their infringing activities and so changed their position that it would not be inequitable for a court to enforce plaintiff's rights in its trademark.

24. Here, defendant has made no showing whatsoever that it has acted to its detriment in reliance on any alleged delay by plaintiffs in bringing the present preliminary injunction motion. Furthermore, defendant's infringement has been deliberate with the intent to capitalize on plaintiffs' mark. The purported delay in bringing this suit neither diminishes plaintiffs' claim of irreparable injury nor bars issuance of a preliminary injunction in this case. The damage to the goodwill and prominence of plaintiffs' mark "Jaws" constitutes irreparable injury and monetary damages are not likely to compensate adeqately for this harm. Ideal Industries, Inc. v. Gardner Bender, Inc., 612 F.2d 1018 1026 (7th Cir. 1979), cert. denied, 447 U.S. 924 (1980).

25. Furthermore, where a court finds deliberate infringement, i.e., an intent to capitalize on another's mark, it may refuse to allow the defense of laches to be raised for any purpose. Tisch Hotels, Inc., 350 F.2d at 614; Baker v. Simmons Company, 307 F.2d 458, 466 (1st Cir. 1962); Harlequin Enterprises, Ltd. v. Gulf & Western Corporation, 644 F.2d 946, 950 (2d Cir. 1981).

26. Here, defendant has made no showing whatsoever that it has acted to its detriment in reliance on any alleged delay by plaintiffs in bringing the present preliminary injunction motion. Furthermore, defendant's infringement has been deliberate with the intent to capitalize on plaintiffs' mark. The purported delay in bringing this suit neither diminishes plaintiffs' claim of irreparable injury nor bars issuance of a preliminary injunction in this case. The damage

to the goodwill and prominence of plaintiffs' mark "Jaws" constitutes irreparable injury and monetary damages are not likely to compensate adequately for this harm. Ideal Industries, Inc., 612 F.2d at 1026.

27. To the extent that any of the foregoing conclusions of law are deemed to be findings of fact, they are hereby adopted as findings of fact.

On the basis of the findings of fact and conclusions of law entered concurrently herewith, it is ordered that:

A. The defendants, their officers, directors, agents, servants, employees, successors, assigns and all those controlled by them or in active concert with or participation with them, be preliminarily enjoined during the pendency of this case from:

(1) reproducing, copying, counterfeiting, misappropriating, colorably imitating or otherwise using in any way in connection with defendants' products or businesses without the consent of plaintiffs, the mark "Jaws", either alone or in combination with any other name, mark, designation, or symbol;

(2) using in any way in connection with defendants' businesses or products without the consent of plaintiffs any other mark, designation or name so similar to plaintiffs' mark "Jaws" as to be likely to cause confusion, or cause mistake, or deceive;

(3) licensing or authorizing others to use plaintiffs' aforesaid mark;

(4) injuring plaintiffs' business reputations and diluting the distinctive quality of plaintiffs' mark "Jaws" and otherwise unfairly competing, directly or indirectly, with the plaintiffs.

B. Defendants shall forthwith cease manufacturing, distributing, selling and advertising athletic tape cutters using the mark "Jaws", either alone or in combination with any other name, mark, designation or symbol, during the pendency of this case.

C. Plaintiffs shall post a bond in an amount to be agreed upon by the parties within fourteen (14) days after the entry of this order; however, this order shall be effective forthwith.

So ordered

ATTACHMENT D

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

No. 518—August Term, 1983

(Argued November 14, 1983 Decided December 23, 1983)

Docket No. 83-7813

MATTEL, INC., a Delaware Corporation,

Appellant,

—v.—

AZRAK-HAMWAY INTERNATIONAL, INC., d/b/a REMCO TOYS, a New York corporation, EZRA HAMWAY, ROLAND PARIS, and MARVIN AZRAK,

Appellees.

Before:

OAKES, MESKILL, and PIERCE,

Circuit Judges.

Expedited appeal from a decision of the United States District Court for the Southern District of New York,

Richard Owen, *Judge*, refusing to issue a preliminary injunction ordering Remco Toys to stop manufacturing a series of action figure toy dolls which allegedly infringed the copyright and trademark rights of Mattel, Inc., the producer of a series of similar dolls.

Affirmed.

A. SIDNEY KATZ, Welsh & Katz, Chicago, IL (Eric C. Cohen, Pamela McKenna, Welsh & Katz, Chicago, IL, Alexander R. Sussman, Robert J. Mandel, Fried, Frank, Harris, Shriver & Jacobson, New York, NY, of counsel), *for Appellant*.

ANTHONY F. LOCICERO, Amster, Rothstein & Engelberg, New York, NY (Jesse Rothstein, of counsel), *for Appellees*.

PER CURIAM:

Mattel, Inc. (Mattel), the manufacturer of a popular series of 5½" action figure toy dolls sold under the registered trademark name of "Masters of the Universe," brings an expedited appeal from a decision of the United States District Court for the Southern District of New York, Richard Owen, Judge. Judge Owen refused to issue a preliminary injunction against Azrak-Hamway International, Inc. (Remco), and certain Remco officials, to stop production and sale of Remco's series of 5½" action figure toy dolls titled the "Warlords," which were de-

signed to compete with Mattel's "Masters of the Universe" dolls. Mattel claims that by producing and selling the "Warlord" dolls, Remco infringes upon Mattel's registered copyright in the "Masters of the Universe" dolls in violation of 17 U.S.C. §§ 106, 501 (Supp. V 1981), its federal trademark rights in violation of 15 U.S.C. §§ 1115(b), 1125(a) (1976), and its common law right under New York law to be protected against unfair competition.

The standard in the Second Circuit for injunctive relief, as set forth, *e.g.*, in *Jackson Dairy, Inc. v. H. P. Hood & Sons, Inc.*, 596 F.2d 70, 72 (2d Cir. 1979), requires a showing of two things, first, irreparable harm and, second, "either (1) likelilhood of success on the merits or (2) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly toward the party requesting the preliminary relief." Judge Owen held that Mattel did not make a showing that either prong of the second requirement was met. We agree.

The "Masters of the Universe" dolls are a series of dolls with different heads, clothing, and names, but all sharing a common torso, which is a sculptor's exaggerated rendering of a bodybuilder's body with shortened legs. Likewise, the Remco series of dolls all share a body with overdeveloped musculature and legs proportionately shorter than the average human being's. The Remco dolls all have names, heads, feet, hands, and clothing different from the Mattel dolls, with their names and costumes designed so that the dolls represent certain comic book figures. The Remco dolls' bodies also have pectoral, abdominal, and other musculature that differs in minor though significant detail from that of the Mattel dolls. Remco obtained a license from DC Comics, Inc., to

model its dolls after their comic book figures "Warlord," "Arak," and "Hercules unbound." Both the Mattel and the Remco dolls are posed in a similar crouching position which may be likened to the fighting stance of a Neanderthal man or that of a latter-day professional wrestler approaching his opponent. As the district court found, any claim of uniqueness in the pose is "frivolous."

The Copyright Claim

Mattel's claim is that Remco copied the torso of its toy, which it considers the essential part of the doll. While it is true, of course, that it is possible to infringe while copying only a part of a work, *see, e.g., Elsmere Music, Inc. v. National Broadcasting Co.*, 482 F. Supp. 741, 744 (S.D.N.Y.) (copying of four notes and two words out of an entire song may constitute infringement), *aff'd*, 623 F.2d 252 (2d Cir. 1980), we agree with the district court that Mattel did not demonstrate substantial likelihood of success in proving infringement of its "Masters of the Universe" torso.

Mattel owns a registered copyright in its dolls. To prove infringement, it must either produce proof of direct copying or show that Remco had access to its dolls and that the protectable features of the Remco doll's body are substantially similar to the Mattel doll's body in the eyes of the average lay observer. *E.g., Warner Brothers Inc. v. American Broadcasting Co.*, 654 F.2d 204, 207-08 (2d Cir. 1981). Remco gave its sculptor a Mattel doll to show him what kind of doll it wanted, and to insure that Remco's doll would not appear to be the physically weaker of the two toys. But the district court apparently credited the evidence of Remco's expert on human anatomy that the Remco doll was not a direct copy of the Mattel doll, but rather was simply another artist's rendering of the human

form with an exaggerated musculature. The artist who sculpted the model for the Remco figure had body-building and comic magazines as well as other material from which he worked.

Though the dolls' bodies are very similar, nearly all of the similarity can be attributed to the fact that both are artist's renderings of the same unprotectable idea—a superhuman muscleman crouching in what since Neanderthal times has been a traditional fighting pose. The rendering of such an idea is not in itself protectable; only the particularized expression of that idea, for example, the particular form created by the decision to accentuate certain muscle groups relative to others, can be protected. *See, e.g., Ideal Toy Corp. v. Fab-Lu Ltd.*, 360 F.2d 1021 (2d Cir. 1966). In this case a lay observer would recognize certain differences in the way the two sculptors have created images of strength by overemphasizing certain muscle groups. Thus, the district court reasonably found that the only parts of the dolls' bodies that constitute the protectable expression of an idea are not substantially similar. *See Ideal Toy Corp. v. Sayco Doll Corp.*, 302 F.2d 623, 627 (2d Cir. 1962) (Clark, J., dissenting).

The Trademark Claims

To succeed on either the state unfair competition claim or the federal trademark claim, Mattel had to show that Remco copied certain nonfunctional design features of the Mattel dolls which had developed a secondary meaning in the eyes of consumers so that consumers were misled into believing that the two dolls came from the same source. *E.g., American Footwear Corp. v. General Footwear Co.*, 609 F.2d 655 (2d Cir. 1979). The court below correctly found that particular arrangement of

musculature in the "Masters of the Universe" model has not developed such a secondary meaning in consumers' eyes so that they falsely associate Remco's dolls with Mattel. The dolls all have different names, clothes, and heads, and Mattel provided insufficient evidence that consumers were mistaking Remco dolls for Mattel dolls because of their similar bodies. In addition to offering direct evidence of actual confusion by customers, retailers, salesmen, or the like, what has become a usual way to demonstrate either consumer confusion or secondary meaning, in a case where the existence of secondary meaning or consumer confusion is not otherwise obvious, is for the proponent to undertake some form of survey of consumer attitudes under actual market conditions. *See, e.g., Information Clearing House, Inc. v. Find Magazine*, 492 F. Supp. 147, 160 (S.D.N.Y. 1980).[1] Here for preliminary injunction purposes Mattel took no such survey, and it provided little other evidence demonstrating consumer confusion.[2]

Mattel also claims that Remco violated § 32(a) of the Trademark Act of 1946, 15 U.S.C. § 1114(1)(a) (1976), by including the phrase "PLAY WITH . . . MASTERS OF THE UNIVERSE . . . AND OTHER 5½" ACTION FIGURES" on packages selling its Warlord dolls. That

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1 This was not always the case, as then District Judge Feinberg pointed out in *Zippo Mfg. Co. v. Rogers Imports, Inc.*, 216 F. Supp. 670, 682 & n.87 (S.D.N.Y. 1963).

2 The fact that Mattel spent a great deal of money advertising its product, especially when coupled with commercial success, can also be a factor in determining whether the trademark has developed a secondary meaning. 3 R. Callman, *The Law of Unfair Competition, Trademarks and Monopolies* § 77.3 at 349 (3d ed. 1969), cited in *Time Mechanisms, Inc. v. Qonaar Corp.*, 422 F. Supp. 905, 912 (D.N.J. 1976). However, proof of an expensive and successful advertising campaign in itself is of course not enough to prove secondary meaning. *American Footwear Corp.*, 609 F.2d at 663.

section makes it a violation to use any registered trademark without permission in connection with the sale of goods. Section 33(b)(4) of that Act, 15 U.S.C. § 1115(b)(4) (1976), however, allows a competitor to use another's registered trademark to describe aspects of one's own goods, even to indicate that one's product is a legitimate copy of another's product. *See, e.g., Societe Comptoir de L'Industrie Cotonniere Etablissements Boussac v. Alexander's Department Stores, Inc.*, 299 F.2d 33, 36 (2d Cir. 1962). The district court had sufficient evidence before it to support its implicit conclusion at this stage of the proceedings that Remco's purpose in using the "Masters of the Universe" trademark in selling its dolls was to describe to purchasers a use of its own product, and did not constitute a bad faith effort to deceive consumers into thinking they were buying a Mattel toy. Moreover, the phrase in question was located on the package in a place and manner that only the close reader would notice.

The Balance of Hardships

Mattel is, or was at the time of the district court hearing, already selling as many "Masters of the Universe" dolls as it can produce, and for inadequately explained reasons it delayed bringing this action until just before the start of the Christmas selling season. The district court therefore correctly concluded that an injunction would hurt Remco more than it would help Mattel, and that the balance of hardships does not tip decidedly in Mattel's favor.

Remco has benefited from Mattel's success in developing a market for 5½" action figure toy dolls. Mattel did not demonstrate, however, that Remco was trading on

Mattel's success in any illegal way. Having failed to satisfy either prong of the preliminary injunction standard, *Jackson Dairy*, 596 F.2d at 72, Mattel was correctly denied the relief it requested.

Judgment affirmed.